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STANDING COMMITTEE
ON
FINANCE AND ECONOMIC AFFAIRS

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Le jeudi 17 mai 1990

Standing Committee on Finance and Economic Affairs

Briefing on Goods and Services
Tax

Organization

Comité permanent des affaires économiques et financières

Séance d'information sur la taxe
sur les produits et services

Organisation



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Clerk: Lisa Freedmen

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 17 May 1990

The committee met at 1010 in room 151.

BRIEFING ON GOODS AND SERVICES TAX

The Vice-Chair: Good morning, ladies and gentlemen. I call to order the standing committee on finance and economic affairs. I would like to ask Bryan Davies, the deputy minister, if he would do the introduction of staff. I would prefer we go through the presentation and hold questions, and we can call anyone back on the floor whom we want, but I would like to get through this presentation.

Mr Laughren: On a point of information, is it your intention to proceed even though Dave Warner is not in the room?

The Vice-Chair: Dave Warner is where he should be. He is pursuing his noble profession of teaching and I intend to see that he stays there.

Mr Dietsch: That is a good start already.

Mr Davies: Thank you very much, Mr Chairman. We are pleased to be here today to provide the committee with some information on the proposed federal goods and services tax. I am joined at the table on my left by Tom Sweeting, who is the director of the tax policy branch of the ministry. To my extreme right is Paul Love, our senior budget adviser for corporation and sales tax, and right beside me is Steve Dorey, who is senior policy adviser in macroeconomic analysis and economic forecasting. Paul and Steve will proceed, as you suggest Chairman, to take us through the slides. I believe that the committee has hard copy of the material. If not, we have extra copies here. We are proposing just to use the overhead slide machine to provide you with this overview, if that is satisfactory. If it is, I would ask Paul to begin.

Mr Love: Good morning, and thank you very much again for inviting us to make this presentation this morning. This is intended to be an overview of what we understand to be the federal goods and services tax proposals at this time. As you know, the goods and services tax has received third reading federally and is now before the Senate. Before any final detail will be available, we are still awaiting the regulations in regard to the goods and services tax. The regulation will draw the definitive line between what is taxable and not taxable and how certain important outstanding issues will be dealt with. So I will proceed with the presentation now. If you could go to slide 1 in your slide package.

What we are proposing to deal with today is to give you some background material on the federal sales tax reform process and then to discuss in some detail what we in Treasury at the staff level believe to be the economic, fiscal and budgetary impacts of the federal reforms and, moreover, to describe in some detail what the 1990 budget changes are related to.

Before we get into the detail on what the federal proposals are, I think it is important to begin with a brief description of the federal sales tax reform exercise. This is very important in terms of understanding how the discussions between the federal government, the provinces, the business community and various

interest groups have evolved over the years to end up with the goods and services tax.

We can see from the presentation that the federal sales tax reform was first introduced in 1924. In 1966 the reform process really began. Without going through item by item, I think the points that I would make would be that it is interesting to note that between 1966 and 1975 the focus of debate was really on whether or not they should take what is the manufacturers' sales tax and shift it to the wholesale level, which would just simply be taking it off the point of production into the wholesale level and, in so doing, capture at least a portion of the import commodities and also relieve the tax from export goods.

In 1975 the federal government presented a discussion paper which it called the green paper which provided four options for reform. Among those options was a value added tax. Although the discussion paper at that time continued to favour the wholesale type of tax, it is interesting to note that 1975 was the first glimmer of a value added tax system. Although, as the federal government has often indicated, value added taxes are common in the industrialized world, it was really 1975 when a value added tax was even considered in a Canadian context.

In 1983 with the Goodman report, that was really the point in time when the anticipation of a move to a wholesale level in terms of the federal sales tax reform ended and the really serious consideration of value added taxes began. Since that time there have been various options put forward, including the business transfer tax and, more recently, a New Zealand-style goods and services tax. The difference between a business transfer tax and a New Zealand-style goods and services tax is really that in the business transfer tax, or BTT, a portion of the tax burden is left with the business or producing sector of the economy, rather than on the retail consumer level.

Really, the rest of this page deals with how the discussions have evolved. You would note that in 1987 there was a proposal for a federal-provincial sales tax system, and in April 1989 those discussions were terminated and the federal government very quickly moved to the GST style of federal-only tax. In 1990, as you may know, the third reading on the bill to completely amend the federal excise taxes is where the goods and services tax will be found henceforth. It was passed for third reading on 10 April, and on 15 May it was referred to the Senate. The Senate, according to our understanding, is supposed to report back by 8 October.

Now, what we are going to be doing here is, we would like to share with the committee what we have read in federal documents which outline the federal government's rationale for change. What we have are two slides that describe what the federal government has said about its own sales tax system and what objectives it is hoping to achieve under federal sales tax reform.

In terms of why to replace the federal sales tax, in the 1987 discussion paper the federal government outlined a number of different reasons why it felt some form of sales tax reform was necessary. The first point they made was that the federal sales tax covers few goods and virtually no services; in other words, a very narrow base. With a narrow base that taxes goods but not services, it tends to distort certain production and distribution

decisions. Obviously, a producer could reduce its federal sales tax burden by replacing any goods production with some sort of service mechanism.

The fact that it has a narrower tax base, taxing some things and not others, means that it can distort final prices. To the extent that the goods and services tax is levied on all production at the manufacturer's level, the federal sales tax is embedded in export prices and, according to the federal government, that is hurting our international trading position. The tax on what we call business inputs, which is really the same thing as business purchases, increases the level of the cost of investment and therefore may impair investment to a certain extent.

To the extent that it is levied at the manufacturing level, if a good is produced in an international market and then imported into Canada, it can, according to the federal government, escape most of the federal sales tax burden and thereby provide a competitive advantage to imports.

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The federal government has argued that the fact that the tax is buried so deeply in product prices—being at the manufacturing level and then it could potentially move through various manufacturing stages to a wholesale level of one or more stages and then into a retail level—it thereby can be unfair to low-income Canadians.

Finally, the federal government argues that the tax is too complex, and that is mainly due to the fact that there are many exemptions from the federal sales tax, exemptions that have specifically been designed to relieve certain products or producers from federal sales tax.

Another source of complexity is the tax base and the tax rates. The bottom half of the page before you shows that there are four principal rate classes and those would be construction materials and equipment for buildings, which are taxed at the rate of 9%; alcoholic beverages and tobacco products at 19%; the general tax rate is 13.5%; then there is a special tax on telecommunication services at 11%.

With that kind of background, the federal government has outlined certain objectives that it wanted to achieve through reforming its sales tax system. If we think back to the last slide in terms of what they said were the main problems with the existing manufacturers' sales tax, the objectives are obviously very much in line with correcting those problems.

The first problem in correction they want to achieve by sales tax reform is to strengthen our economic competitiveness, and that would be done through relieving the tax on investment, eliminating the tax on exports, providing an equal treatment of imports in the domestic marketplace and contributing to deficit reduction in terms of providing a stable, broad-based sales tax. According to the federal government, that will help over the longer term in deficit reduction.

We will, in a moment or two, get to the federal fiscal estimates for the goods and services tax, and you can see that at least initially, and over transition, there is nothing in this plan, according to the federal estimates, that will achieve or in any way make an inroad into the federal deficit, but that seems to be a long-run objective of the federal government.

Finally, the federal government has said that it wants to achieve a fairer sales tax system, and that will be done through equal treatment of virtually all goods and services being subject to federal tax. It will also be achieved, according to the federal government, by providing some relief for low-income families and certain sectors of the economy.

The fundamental principles of federal sales tax reform, and these spill out of the objectives, are to support growth and efficiency in the economy—again, not taxing business inputs is supposed to, according to the federal government, increase economic efficiency; to be fair both to individuals and families and in its application to sectors and firms across the economy, again a broad-based sales tax and, with what the federal government believes is adequate relief for low-income families, is to be fairer, and to minimize compliance cost for businesses and administrative costs for government.

I have just suggested there are competing objectives here and, to some extent, certainly the small business community does not seem to agree that the sales tax reform maximizes in that objective.

The bottom half of the slide would just describe the federal goods and services tax base. There is a 7% tax on all taxable supplies, except for tax-exempt supplies and zero-rated supplies.

The difference between tax-exempt and zero-rate is as follows: Tax exempt means that the producer will not be required to charge tax on its sales but it would pay tax on all of its inputs or purchases and it would not receive any relief from that tax it paid. The producer in that case is left holding the tax and it can decide to do one of the three things, I guess, with the tax, which would be (1) to reduce profits; (2) to pass it on in lower wages or (3) to increase prices. Some tax-exempt supplies would be things like residential rents.

Zero-rate supplies are different in that, in that case, there is no tax left with the purchaser. They receive full tax credits for the tax they paid on their inputs and they are not required to levy any tax on their outputs. So in that way, there is in fact no potential for tax left in the final prices.

The way the federal GST is designed to work is that tax will be otherwise levied at every stage of production and then the producer will be allowed to deduct the tax he paid on his inputs or purchases from the tax he collected on sales. So in that way, the tax just rolls down the production chain, be it short or long, to be 7% on all final consumer purchases, except where the federal government has decided to provide a tax exemption or a zero-rating treatment. Zero-rating, for instance, applies in the case of food—grocery food, basic groceries.

I would now like briefly to outline what the federal government has estimated to be the GST revenue impacts. We have had to do a little bit of extrapolation because it starts the GST revenue estimates, according to its papers, at \$20.8 billion, but we think it is proper to consider the GST, in terms of net revenue, beginning at including the tax levied on the MUSH sector and housing. In the case of housing, there is a rate reduction provided for housing up to \$450,000. That is new residential housing. In the case of MUSH, which is an acronym, for Ontario's major transfer partners—being municipalities, universities and colleges, schools and hospitals—the tax will be levied at 7%. Then those institutions will receive a partial rebate of the tax and the rebate will be the equivalent to the extra tax, over and above the existing federal sales tax burden for those institutions.

When we take off the rebates for MUSH and housing, we come up with a net revenue of \$20.8 billion. Off that, in terms of deciding what the net revenue impact is, we will take off the federal sales tax and excise tax revenues of \$19 billion—it is in fact \$18.9, but we have rounded this thing up to \$19 billion—and then also the enhanced GST credit—this is the support that the federal government plans to provide to low-income families

under the GST—and the total cost of that package on a full-year basis is \$1.3 billion.

Other direct revenue impacts are things like indexation, the fact that certain programs are indexed to inflation; administration costs of \$400,000 million; certain expenditure cuts which accompanied the final revised plan in the 19 December paper—there were also certain expenditure control measures introduced at the same time—and the impact on other taxes, federally, of positive \$300 million. Also, there are certain transitional programs that the federal government is introducing, such as an inventory rebate.

The inventory rebate says that as of 31 December 1990, businesses will be left with an inventory that will include the existing federal sales tax, and then when that inventory is sold, subsequent to 31 December 1990, the purchasers would be taxed on the tax already buried in the inventory. So what the federal government has decided to do is give back the existing federal sales tax buried in inventory prices. That program is estimated to cost—and these are again federal estimates—\$1.1 billion. Also, in terms of transitional support, the federal government has certain programs in place for small business. The total cost of those programs is estimated to be \$900 million.

As you can see at the bottom of the page, the total impact is a reduction in revenues of \$1.4 billion. That sounds odd when you recall that one of the earlier objectives was deficit reduction, but again, at least in the interim, take off the transitional impact to see the ongoing revenue impact to the program, and the transitional impacts total \$2 billion. When you add that extra \$2 billion into the ongoing—it is just really over a short period of time—you will see that at least on a full-year basis and based on the initial plan, the GST should raise an extra \$600 million in revenue.

I will turn it over to Steve Dorey at this time to go through the economic ramifications of the GST for Ontario.

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Mr Dorey: The next few slides outline the impacts of the GST on the economy. We think that initially there are two major shocks to the economy. There is an inflation increase—the measured CPI will rise, according to federal estimates, by 1.25%—and there is an impact in terms of real growth in 1991.

The CPI inflation increase really has three sources. At the present time, as Paul has outlined, part of the cost of the federal sales tax is not borne by consumers, it is borne by export customers, it is borne by firms in the price of machinery, it is borne to some extent by workers and shareholders in Canadian firms that are exporting. All of those costs will be shifted to consumers, and that is about \$4 billion with the GST. That will add something in the order of 0.8% to the consumer price index in 1991.

In addition, the GST provides for a variety of credits for housing, for low-income individuals and so on, and those credits in some cases will be administered in ways that do not have an inflationary impact. The housing rebates, for example, and the MUSH rebates will not have an inflationary impact because they will be administered in a way that does not add to consumer prices. On the other hand, the low-income credits will be money coming back to individuals, but the cost of administering those credits will have to be paid out of a higher rate and therefore will have an inflationary impact.

The third source of additional inflation coming out of the GST is the added costs that could occur if wages rise in response to this inflationary impact or if there is less than full

pass-through of the costs initially. Our estimate is that there will in fact be some limited wage response and that the pass-through of the federal sales tax savings will not be immediate and will not be total. So our estimate is that the impact on the Ontario inflation rate is about 1.5% in 1991.

The shift of the tax burden from manufacturers to consumers will reduce real disposable income by about \$4 billion in 1991. That will have a negative impact on consumer spending. In total, as Paul has outlined, the GST will raise about \$24 billion. Currently, consumers are paying about \$15 billion of the FST, so the net impact is close to \$9 billion. Part of that \$9 billion will come back almost immediately to consumers through the housing rebates, through the MUSH rebates and so on. So again, the net impact on consumers is about \$4 billion.

The impact on real disposable income will lead to lower spending on consumer goods, particularly services and those goods which have not previously been subject to the federal sales tax. Shoes, clothing and books are three examples of things that have not been subject to the federal sales tax but will be subject to the GST and therefore consumption of those kinds of goods is likely to fall. Some goods like autos are likely to fall in price, because the current 13.5% tax is a higher effective burden than the 7% GST will be. There have been estimates in the past few days that auto prices will fall by about 4%.

There will be improvements in the medium term in trade and investment that will partially offset that initial negative effect in consumption.

We will turn to the next slide. Within the housing sector, houses that cost over \$450,000 will be subject to the full GST. We were looking at figures yesterday that suggest that in the Toronto area currently, or at least during April, that accounts for close to 40% of the houses that are being completed. Some of those houses have not been sold at that price and may never be sold at that price, but that is the kind of impact it could have in the Toronto area.

The second factor that will affect the greater Toronto area is that for houses under \$350,000 there will be a rebate of 2.5% to compensate for the added cost. The theory is that nationally that would leave home owners unchanged, because there is currently about four and a half points of FST buried in the price of a home and that will be removed. In the Toronto area there is probably less than that FST content because land prices are a significant component of house prices in the Toronto area, a larger component than they are in the rest of the country. Therefore, because the federal sales tax does not apply to that land component, 2.5% credit will not be adequate to fully compensate for the additional cost. So there will be an additional cost for most people buying homes, even affordable homes, in Toronto.

There is also an impact on the housing market because legal fees, real estate commissions and so on will be subject to the GST, and that will have some impact on the resale market and on the renovation market. All those goods will be subject to it.

In terms of the impact on investment, the removal of the sales tax on business inputs will lower the cost of capital. The federal government estimates that the price of machinery and equipment will come down by something like 4%. However, we do not expect that to have an immediate, substantial, positive impact on investment because consumer spending will be quite weak and that will be a negative in terms of business investment. We do expect, however, that over the medium term business investment will improve as a result of this measure.

The trade impacts take several forms. There is about a 2% premium buried in export prices which represents the buried

federal sales tax at this point, and that will be removed. That will be a positive factor for exports. Imported goods currently enjoy an advantage of 0.9%, according to federal estimates, over domestically produced goods because of the way the federal sales tax is administered. Again, that disadvantage for Canadian producers will be removed and that will be positive for Canadian firms competing with imported goods.

There are a couple of other effects on the trade side. In the short run, we expect consumption will be weaker and as a result imports would tend to be lower. But one of the things this switch will do will be to change the relative prices of goods and services. Because the federal sales tax applies to goods, whereas the GST will apply to both goods and services, the net effect will be to raise the price of services and lower the price of goods. The net effect of that will be to make goods more attractive, to sell more goods, and goods are what we import; we do not import a lot of services. So that in turn would tend to raise imports to some extent. In sum, though, our reading of it is that even from year one the net effect on trade will be slightly positive.

In quantitative terms, we expect the impact on provincial real gross domestic product to be 0.3% in 1991. Over the three-year average, 1991 to 1993, the impact we estimate will remove about 0.1% from growth over those three years. The nominal growth will not be affected to the same degree because prices will be higher; nominal growth being the sum of real growth and gross domestic product inflation.

As I said, we expect the consumer price index to rise by about 1.5% in the first year. We will have smaller rises in 1992 and 1993. So the impact on the average inflation rate over those three years will be something in the order of 0.7% per year.

We expect that the net impact on job creation in 1991 in Ontario will be a reduction in job growth of about 17,000 jobs. Over the three-year period, the average will be about 6,000 jobs a year. Both in year one and over the three-year period, we expect the unemployment rate to rise by about 0.2% as a result of the introduction of the GST.

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The response of the Bank of Canada will be interesting.

If you turn to the next slide, we have assumed that there will be a small rise in wages in response to the additional inflation. It is possible that our estimate underestimates that impact. The federal government has assumed that there will be no response in wages, except for that which automatically occurs through cost-of-living clauses already in place. We have already seen some bargaining situations—the Pratt and Whitney case, for example—where people are asking for cost-of-living clauses to protect themselves from GST inflation.

If the wage response is larger than the federal government expects, that may lead the Bank of Canada to respond with slightly higher interest rates. Finance has assumed that there is full and immediate pass-through of the federal sales tax reduction savings to consumers. An alternative assumption would be that there is only partial pass-through and that pass-through takes some time to occur. We have taken an intermediate assumption that in fact most of the saving will be passed through and that most of it will be passed through quite quickly.

Again, the Bank of Canada could raise interest rates, and Mr Crow has said quite recently that if in fact he sees a wage response to the GST inflation he intends to react.

Mr Haggerty: Will that control his wages, too?

Mr Dorey: I am not sure.

If there were no wage pass-through, then obviously there would not be any need for higher interest rates and those effects would not occur. I will turn it back to Paul.

Mr Love: Turning to the fiscal impacts of the goods and services tax on Ontario, certainly our fiscal estimates are very squarely based on the sort of economics that we expect from the GST. I guess first and foremost to note is the fact that direct purchases by the Ontario government will be not be subject to GST. To the extent that they are, the GST will be refunded, and that is consistent under the Constitution. The federal government is not allowed to tax the provinces and the provinces are not allowed to tax the federal government. So the tax-free treatment of Ontario is again consistent with that constitutional clause.

The GST could still have some negative impacts on Ontario's fiscal position, however. As Steve has outlined, there is an inflation risk with the GST, certainly during transition, and to the extent that the GST does result in inflation there will be pressures on the Ontario government's wages, salaries, and certainly on transfer payments to our major transfer partners and our support provided to other agencies. These expenditure pressures are at least partially offset through potential increases in our revenues. To the extent that the GST is good for business, we can anticipate potentially some higher corporate profits and therefore higher corporate income taxes.

Employer health taxes: As noted on the slide, there is a potential for higher payrolls if workers bargain for GST inflation impacts in their 1991 wages. I would note that offsetting that—and the story is very much the same for our personal income tax revenue estimates—on the one hand you anticipate that inflation would be incorporated to a certain extent in wages, but on the other hand to the extent that the GST reduces employment, at least in the short term, we would anticipate that the EHT and PIT, personal income tax, revenues would be negatively affected. There is a minimal increase in the retail sales tax of \$15 million and that is through the preservation of the Ontario policy of including all taxes in the RST base.

We thought the committee might be interested briefly, after having gone through it in an overview sense, in what the goods and services tax's design looks like, and some brief detail on what the current RST, retail sales tax, in Ontario looks like. So the top half of the slide describes the various rates we have in Ontario. We have a transient accommodation tax at the rate of 5%, and that yields \$14 million on a full-year basis per point.

The general retail sales tax generates per point \$1.036 billion. The 10% tax on alcohol sold in licensed establishments generates \$20 million a point, and then retail alcohol at 12% generates \$33 million per point. The total RST revenue, according to the 1990 budget, is anticipated for 1990-91 as \$8.96 billion.

In terms of a base, you will see that the retail sales tax base differs significantly from both the existing federal sales tax and also what the federal government is proposing under the goods and services tax. The retail sales tax applies to most goods, but only certain services. A number of goods are specifically exempted from retail sales tax. This is for example: groceries, and energy used for heating would be subject to GST and will not be subject to retail sales tax, cooking and lighting, children's clothing—again all those things are subject to GST but not to retail sales tax—footwear costing \$30 or less. Prescription drugs will be exempt or zero-rated for federal goods and services tax purposes and also for retail sales tax purposes. Specific reading materials are exempt for retail sales tax purposes but would be subject to tax under the GST, and production machinery and equipment is specifically exempt from retail

sales tax and it will be in effect tax-free under the GST, again because, although the business would pay tax on those purchases, it would receive full credit for the tax paid and so in effect would be left tax-free for production machinery and equipment. Most services are excluded from the retail sales tax base at this time.

In comparison, I do not think you will find too many differences in the retail sales tax base. Some of the western provinces, for instance, would tax production machinery and equipment, but their manufacturing base for instance is much smaller than ours and so that being significant in their overall base is not likely. The rates across Canada can range from zero in Alberta to up to 12% in Newfoundland. Ontario's retail sales tax rate at 8% is in the midrange of those rates applied by all taxing jurisdictions.

Now, I would like to spend a minute and just describe the moves announced by the Treasurer in the 1990 Ontario budget and how they relate to the goods and services tax. These are retail sales tax modifications which are to take effect 1 January 1991—that is the effective date of the goods and services tax. We have the following program changes. The increase in the vendor compensation program: what that does is increase the rate of compensation from 4% to 5% and increase the compensation threshold from \$1,000 to \$1,500 a year. What that means is that a vendor who is collecting retail sales tax on sales would be able to retain up to \$1,500 of the tax collected for compensation and the compensation is designed to partially offset the cost of collection, certain bookkeeping costs and also programming of cash registers and other programs that vendors need to have in place to collect the retail sales tax for us. I would compare that program to the fact that the federal government has no ongoing support for vendors in the GST proposals as now constituted.

Production machinery and equipment exemption defined: I received a number of questions on that move and what that is, as I have just indicated, is that we have an exemption for production machinery and equipment in Ontario for retail sales tax purposes. We currently rely on the federal definition of production machinery and equipment and all we have done is—because that exemption federally will be eliminated with the GST—we simply move the exemption down into our act.

Transient accommodation: the transient accommodation and exemption threshold will be doubled. Tourist rebate program thresholds and limits will parallel the proposed federal limits. That made some sense in terms of simplifying the claiming of rebates by tourists who would not otherwise be familiar with Ontario and may not have access to a retail sales tax office in Ontario.

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The bottom half of the table simply summarizes the anticipated revenue impacts of the 1990 budget changes. Impact of federal reform of the Excise Tax Act we anticipate will have a \$3 million positive impact on revenues in 1990-91; \$15 million on a full-year basis.

The vendor compensation program will cost us \$4 million in 1991, and the reason these numbers are quite a bit smaller in 1990-91 is that the program would only take effect on 1 January and therefore the cost would only cover the period 1 January to 31 March 1991. The changes to that vendor compensation program on a full-year basis are going to cost \$22 million. Some definitional adjustments, such as the transient accommodation, will cost the Ontario Treasury \$1 million. It is actually less, but we have rounded it to \$1 million on a full-year basis.

The administrative adjustments—certain changes we have made to statute-barred limits, which is how long you can make an amendment to your previous filing of a retail sales tax submission, director's liabilities, and so on—would on a full-year basis generate \$7 million, bringing the total impact of the 1990 budget changes to \$1 million negative, both in terms of 1990 and 1991 and \$1 million negative on a full-year basis.

I would like to conclude our presentation today by briefly discussing the continuance of the Ontario policy of including all federal sales taxes in the Ontario retail sales tax base. As the retail sales tax is now constituted, it is levied on the final price including all federal sales taxes, and currently the retail sales tax generates about \$9 billion. On a full-year basis, given that we currently include the federal sales tax and retail sales tax base, we are generating somewhere in the neighbourhood of \$530 million from tax in the federal sales tax and that would be before tax reform.

Continuing that policy, the GST will continue to be included in the retail sales tax base and, with the elimination of federal sales tax on an ongoing basis, we would lose about \$530 million and then the GST would take the place of the existing federal sales tax. According to our estimates, we are going to generate \$15 million extra revenue by continuing that policy.

That should be compared to a potential loss. If it was decided that the GST would be excluded for retail sales tax purposes, the loss to the Treasury would be \$530 million or in the neighbourhood of slightly over half a point of retail sales tax. So we could offset the loss through an increase in the retail sales tax rate.

That concludes our presentation, and I believe you would turn it over to questions.

The Vice-Chair: Thank you. We have a number of questions.

Mr Laughren: I will never cease to be amazed by the Treasury officials. If one did not know better, one would not realize how opposed you were to the GST by your presentation. You talk about the impact on inflation being 1.5%, as I understood your number, and that there would be a \$4-billion shift to the consumers. I hope I have got your numbers correct. Now I am just a country boy from the north, but I am really having difficulty understanding some of the conflicting statements that come out of Treasury and the Treasurer himself as to the extent to which the revenues to Ontario will be affected.

We heard the Treasurer say at one point that he thought that the province would collect \$170 million more with the GST. Then he said if we did not tax it, it would cost us \$600 million, but it was going to be revenue-neutral. I am confused as to how he arrived at those sets of numbers, that if you do not impose it costs us \$600 million and if you do it is revenue-neutral.

Second, have you seen any of the numbers from British Columbia where the Treasurer stated—this is a Social Credit Treasurer—that he thought a tax on a tax was unfair, even though it was already being applied to the manufacturers' sales tax? I understand that. I would appreciate your comments on this set of numbers that I do not think were designed to confuse country boys and girls but, nevertheless, have added some confusion to the debate.

Mr Davies: Perhaps I can just start off by noting that I will ask Paul to outline in detail the analysis of how we perceive the goods and services tax, as we understand it will be implemented, to be effectively revenue-neutral. What we mean by "revenue-neutral" is that plus-\$15 million number, on a base approaching \$9 billion, is as close to neutral as one can obtain.

With respect to the position taken in other jurisdictions, British Columbia or elsewhere, I would suggest that we are really not competent to speak to their position or their numbers. They can address their own positions as they see fit. But with respect to our calculations, I would ask Paul to provide that clarification, if he could.

Mr Laughren: Before you go on, do you agree with those numbers? Do you have any problem with the numbers that have been given to you by the feds?

Mr Davies: The numbers that have been given to us by the federal government?

Mr Laughren: Yes.

Mr Davies: I am sorry, I am not following which numbers the federal government has given that you are referring to.

Mr Laughren: Most of the numbers you put on the screen in terms of revenue you presumably get from the federal government, do you not?

Mr Davies: No. In terms of revenue, these are our numbers.

Mr Laughren: Oh, okay.

Mr Davies: In terms of the observations the federal government made with respect to its assumptions about the economic impact of the tax, as Steve Dorey outlined, we do question some of the assumptions it has made with the particular impact that the goods and services tax may have on wage settlements and on the pass-through question.

Mr Love: I think I understand your question in terms of the federal revenue estimates that we put up on the board. We have discussed the numbers with the federal government and feel, based on the assumptions and the sources it has used, which are principally national accounts, those numbers are certainly close enough that it would be silly to find dispute with them.

I guess the first number I would like to discuss would be the Treasurer's estimate of \$170 million. That \$170 million, which I believe he was describing in November of last year, related to the GST at 9%. So if we say 9% is the current federal sales tax effective rate, it is levied, say, at 13.5% back at the point of production, but when it gets buried down or built down through wholesale—potentially one or two wholesale levels and the longer production chains—the effective rate at retail is somewhere in the neighbourhood of 7%. At 9%, with that extra two points, an existing 7% per cent on retail prices plus 2%, the revenue yield is somewhere in the neighbourhood of \$170 million extra for Ontario.

When the federal government decided on 19 December to reduce the rate from 9% to 7%, it came very close to approximating the effective federal sales rate buried in product prices at this point in time, which is the reason you can see that our estimate is that it is about neutral. That is to say that in terms of continuance of our existing policy, it will be neutral. According to our estimates, the federal sales tax at this time is generating somewhere in the neighbourhood of \$18.9 billion nationally. About 40% of that revenue is generated from Ontario and that is somewhere in the neighbourhood—

Mr Laughren: That is net.

Mr Love: That is net.

Mr Laughren: From credits.

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Mr Love: That is in terms of the existing federal sales tax net. Somewhere in the neighbourhood of 40% of that is generated from Ontario, which means that they are generating somewhere in the neighbourhood of \$7.6 billion out of Ontario.

If we believe that under the GST—and as Steve has indicated, our best estimate is about 85% of that savings from the elimination of the federal sales tax will be flowed through to consumers through lower prices—that would mean there is a net savings or a net loss of federal sales tax revenue somewhere in the neighbourhood of \$6.5 billion. If you apply the 8.2% tax to that, and that is our average effective rate, taking into account the fact we have different rates for alcohol, for instance, we are left with a loss somewhere in the neighbourhood of \$530 million.

In other words, if the federal sales tax were discontinued and the federal government decided to look to other revenue sources to replace the revenue loss so there is no continuance of any federal sales tax, our base and our revenues would decline by somewhere in the neighbourhood of \$530 million.

But the federal government has decided to continue on with a federal sales tax, and so we take the higher federal sales tax—and this is under the GST—the higher revenue estimate of \$23.9 billion—again, 40% of it is generated out of Ontario—that is somewhere in the neighbourhood of something under \$10 billion. Now 70% of that tax would be included in prices that are subject to retail sales tax, keeping in mind that the GST includes a number of different services and certain goods that are not included in the retail sales tax base. So only 70% of the almost \$10 billion would be included in our retail sales tax base, or somewhere in the neighbourhood of just over \$6.5 billion.

If you apply again our average rate of 8.2%, your revenue estimate is somewhere in the neighbourhood of \$545 million. The \$545 million under the GST less the \$530 million that we current generate under the existing manufacturers' sales tax leaves us a net positive of \$15 million.

That is our best estimate of how the GST transition from a federal sales tax to a GST would affect our revenues. That is done in isolation to estimate what the continuance of our current practice of including the federal sales tax and retail sales tax base might be.

Mr Laughren: That also, if I might, is accepting the argument that when the manufacturers' sales tax is removed, that is reflected in the price of goods and services, or goods in this case.

Mr Love: Yes. That is a very good point.

Let's say that businesses are able to retain or not pass through the federal sales tax savings they have realized through elimination of the federal sales tax to consumers. In that case, businesses more than likely would increase consumer prices. If, on the other hand, you say that disposable income at the consumer level is going to stay the same, then increasing the prices would mean that people would be able to buy less and that means there is less in the way of retail sales tax revenue.

Mr Laughren: Sort of neat.

The other thing was that presumably you have done some reading of Neil Brooks's material. His point is that there is about almost a \$4.7 billion shift away from the corporate sector in terms of taxes to be paid because they will not be paying it on exports, I believe, and on production machinery and so forth.

Did your people analyse his numbers and, if so, what conclusion did you come to? Were they legitimate in your mind?

Mr Love: All right. I would like to turn it over to Steve. I just would say that we currently, as we have indicated, generate \$9 billion from the retail sales tax. About one third of that revenue comes from taxing business purchases. Included in that \$3 billion figure are taxes that we levy on business purchases that are then exported. But I would like to turn it over in terms of—

Mr Laughren: Just before you do, the feds will get out of Ontario with their GST almost exactly the same amount that Ontario gets out of Ontario with its retail sales tax. Is that correct?

Mr Love: That is correct.

Mr Laughren: It is very close to the same amount.

Mr Love: That is correct.

Mr Dorey: With respect to the work of Mr Brooks, our estimate would be slightly smaller, but in terms of the general analysis, I think we agree with most of it. Certainly there is about a 2% tax buried in exports. There are three people who could pay that: Your export customers could pay it, Canadian workers could pay it or Canadian shareholders could pay it. Canadian consumers do not pay it. So that is slightly over \$3 billion that will have to be paid by somebody, and that will be Canadian consumers.

It is also true that there is an import advantage. Imported goods enjoy an advantage now that will be removed, so those Canadian firms that price their goods to match import prices will also be in a situation, if they continue with that practice, where their profits should increase by a fairly substantial amount. Those are the two big elements that get you to slightly over \$4 billion shipped.

Mr Laughren: But that assumes there are matching goods for the imports, does it not?

Mr Dorey: That assumes that Canadian firms are producing goods similar to imported goods.

Ms Hošek: I really have two questions. There are several measures of inflation and you have used CPI. Have you tried to run the same numbers through the other measures of inflation and are they any different?

Mr Dorey: With the gross domestic product deflator, which is the broadest measure of inflation, the impact is substantially less. That is because export prices ought to go down. Because you base it on production, prices of goods produced here, the reduction in export prices would tend to reduce inflation. Because you are presumably removing the advantage import firms now enjoy, the price of imports may in fact go up, and if domestic producers match those higher import prices, that could mean higher import prices. If you are looking at the net impact on trade prices, both of those have the tendency to reduce the inflation on a GDP basis. So our estimate is that the net impact, rather than the 1.5% in the CPI, is about 0.4%. It is much less on GDP inflation.

Ms Hošek: The problem is that the CPI is the political number. In other words, that is the number people use when they are arguing what the real increase in prices is, and that is the number they use for wage settlements and so forth, even though the GDP might be a better one.

Mr Dorey: That is right.

Ms Hošek: The other question I have may be too difficult to answer, but I am interested in it because I know that New Zealand went through a similar exercise of broadening the base and getting a wider tax rate, but I believe it was done at a different stage of the business cycle and from a somewhat different base. Is there anything we can learn from what happened in New Zealand, or is the analogy entirely useless to us?

Mr Dorey: As I understand the New Zealand experience, they did get quite a significant impact on inflation, but it was fairly short-lived. Quite frankly, I am not sure what the level of economic activity was in New Zealand when its GST was introduced, so I cannot really answer the question.

The Vice-Chair: Mr Mackenzie, you are the next questioner, but I have to leave because I am speaking on Bill 165. I just had one quick question. I wanted to clarify one point. In the federal reasoning behind the GST, they talk in terms of the existing manufacturers' tax impeding exports. It is my understanding that in certain product categories there was a forgiveness, a rebate back, and therefore it is not generally the statement that it impedes exports.

Mr Dorey: That is right. The FST does not apply to exported goods. What it does apply to, though, is the business inputs that go into the production of exports. That is the 2% that is buried.

The Vice-Chair: Thank you.

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Mr Mackenzie: Actually, I just had three rather minor questions. In the economic impact on housing, did I hear you give us the percentage of homes costing over \$450,000?

Mr Dorey: Yes, and I actually should clarify that. That was for single homes and semidetached; that did not include condominiums. That was in Metropolitan Toronto last month so it is a relatively small sample, but the percentage was that around 40% of those homes cost over \$450,000.

Mr Mackenzie: You also made the comment, I believe, that the feds expected little wage pressure. You have allowed for more than they have. Is there any particular reasons or arguments that they have given on this?

Mr Dorey: Their sense of it is that because there are credits and rebates, workers will take account of those credits. That is less true than it was when in fact there was an income tax reduction as part of the package, but there are still the low-income credits, and presumably the workers who are eligible for that ought to take that into account when they go to negotiate their wages.

The other argument they make, and we have some trouble with it, is that they see relatively little increase in corporate profits and therefore they believe that firms are not in a position to grant higher wages as a result of this measure. We see a fairly substantial increase in corporate profits and therefore that argument does not hold as much water in our view.

Mr Mackenzie: Even in your case you are really figuring on a minor increase in terms of wage demands.

Mr Dorey: Fairly modest, and, in part, the relatively modest rate of growth in the economy at this point will reduce that pressure.

Mr Mackenzie: You also said, or at least I took it that there was no federal government plan to compensate the vendors for collecting the tax. Am I right or wrong in that? If I am

right, how do they expect to get the co-operation of the vendors?

Mr Love: The federal government, under the original proposal—and this is again the 9% proposal—had a compensation program which, at least in design, looked something like our retail sales tax vendor compensation proposal. But in order to finance the rate reduction from 9% to 7% that element was eliminated. What they have instead is a one-time credit of up to \$1,000 for businesses earning \$2 million or less and a credit amount set at \$300 if the taxable sales are \$60,000 or less. They have also provided, in terms of transition, some support for things like federal sales tax exemptions on the purchase of new cash registers. Businesses are going to be allowed to write off the new cash registers immediately for corporate tax purposes and this sort of thing. But it is, again, transitional relief versus an ongoing support program such as Ontario has had in place for retail sales tax purposes.

Mr Mackenzie: What is your feeling as to the adequacy of the federal approach?

Mr Love: It is not our position to comment on that. The Treasurer felt that in the context of the confusion created by the goods and services tax some change to Ontario's vendor compensation program was appropriate at this time. That ensures that vendors will be able to continue to play the important role they play in collecting and remitting.

Mr Mackenzie: I do not know whether you want to comment or not. In effect, Ontario said it had to be done as against the feds not making a specific change.

Mr Love: Certainly that would be one viewpoint.

Mr Haggerty: I was looking at pages 6 and 10, the economic impacts of the GST. That does not really show any signs of encouragement, does it, when you look at that page and when you talk about job creation. When you look at the minus 17,000 and the minus 6,000—I think you said 17,000 jobs in Ontario would be lost in the first year, and the three-year average would be about minus 6,000—how do we compensate for that loss in jobs?

Mr Davies: I am sorry—in terms of what programs might be introduced?

Mr Haggerty: I am not looking at Mickey Mouse programs, but how do we find jobs for these people? It is a difficult time right now when many people are unemployed due to the high interest rates. I can make reference to one of the larger real estate companies going under.

Mr Dorey: The 6,000 jobs is, if you compare it to an average job creation of about 150,000 over the past three years and a total employment of five million, not a huge number. It is a relatively small impact and I think that you have to put it in the context of the overall developments in the economy. Specific programs to deal with a small shock of that sort may or may not be appropriate, but we have lots of shocks to the economy that can cost more jobs than that.

Mr Haggerty: Yes, there are many traumatic shocks out there that people have. For example, if I can use the city of Port Colborne, which had the largest nickel refinery in the world, during 1977 they almost phased the facilities out in Port Colborne. Some 2,000 people lost their jobs. That community has not got over that traumatic impact or shock yet because the population growth in that community has not changed in 10 years. There have been some industries which have come in,

but not to employ 2,000 people. When you look at this, you can have a single community, a one-industry town, that could be hit by this, and then you are going to have a serious problem out there. Really, you look at it and say, "Yes, who is going to be concerned about them, those people?"

Then on page 10 you come back and you say that the "inflation caused by GST may result in greater pressures on wages, salaries and transfers." Then you go on to say, and these are your forecasting predictions, I guess, "partially offset by marginally higher revenues through potentially higher corporation income taxes." The question is: There are many corporations out there today that are not paying corporation taxes, and that is in the financial sector.

Employer health tax: I hope we are not going to head into the direction that is taking place in the United States where an employer health tax over there now runs on a person earning \$30,000 to \$40,000. If there are two breadwinners in a family, they are paying \$3,700—I am just quoting from memory now—between \$3,000 and \$4,000 employer health tax. A person who is earning an income beyond \$50,000—I think about 33% of the people in Ontario are in that income bracket—will be paying less than two breadwinners earning less than \$40,000 or \$30,000 in the United States. So I can see perhaps, when you talk about this, that you say, "Yes, it would be higher payrolls." I do not know if you mean that is in income to the person that is employed in the industry or higher payroll costs to the industry if you are talking about an employer's health tax.

Are you not concerned, if we are heading in that direction, that this again will put a damper on industry and so on? In the long run, what is the benefit? We are going have less people employed and a higher employer's tax?

Mr Dorey: Yes, we certainly acknowledge that there will be a macroeconomic impact particularly in the first year. The 15,000 jobs is a substantial number. It appears that it will be spread fairly widely over the economy. We do not expect it to be centred in any particular community. So it is a concern and we certainly take it into account when we are forecasting or when we are looking at budget policy.

With respect to the employer health tax revenue, as inflation rises that will raise payrolls and generate more revenue. There is certainly no change in the rate anticipated in these numbers.

Mr Haggerty: But the door is open now, though, in employer health tax. It is a new area, looking at another tax in a sense. I wish it had not been called a tax. It should have been an assessment, but it is called a tax. That just opens a door that gives government another avenue to say that there is extra revenue that can be generated through this area. But when you talk about the impact, about the number of jobs lost and the income lost through the job loss, it will affect Ontario more than the other nine provinces when you look at the economic factor that Ontario plays in this Confederation. So really, he is going to strike home to the province of Ontario with this GST and it is going to hurt us seriously in the long run.

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Mr Dorey: Certainly, in absolute terms, Ontario represents 41% of the national economy. Of the estimates we have seen, some show Ontario doing slightly worse than the rest of the country, some slightly better, as a result of this tax, but most of them show us responding in a way similar to the rest of the country in proportional terms.

Mr Haggerty: I use another example here. I just listened to a debate on television the other night. They were talking about

the GST and the automobile sector said yes, there should be a rebate back to the consumers, of between \$800 and \$900. But then they put a rider in there that said, "Yes, we are willing to give part of it, but then we have to go back to our dealerships, which are independent from the automobile manufacturers, and say that that may not be passed on to the consumer." Again, we are not sure how much of this benefit is going to be passed on to the consumer.

Mr Laughren: You are so cynical and sceptical, Ray. Have you no faith in the free enterprise system at all?

Mr Haggerty: I am just following you. You have been a good teacher. You have been around here too long.

When I look at this thing here, I can see that it and free trade in Ontario here are going to send this thing into a turmoil and without reducing the deficit in Ottawa. That is my punch line, I guess.

Mr Mackenzie: I would like you to run by me just once more your rejection of the tax-on-tax argument. How, in effect, do we know that we are going to get the advantage? How does the consumer know that he has the advantage? I guess it is part and parcel, to some extent, of the last remarks that Mr Haggerty made on the reduction of the GST.

Mr Love: We have spent some time on this in the bowels of Treasury, looking at how this might affect consumer prices and to what extent the assumption vis-à-vis the flow-through is going to affect our revenues. What we would start with is, assume for the moment that on 31 December 1990 and 1 January 1991 consumers' disposable income is left exactly the same and that, at least initially, manufacturers and others, businesses in general, would decide that the savings they are realizing through the elimination of the federal sales tax should not be flowed through in terms of lower prices.

In that case we would see prices increase. With consumers' disposable income staying exactly the same, we would see, according to our estimates, a reduction in consumption because they have less to spend and prices are generally higher, and therefore with reduced consumption our retail sales tax revenues decline; or to the extent that they stay the same, it just simply means that we are getting more revenue from a lower level of, say, item-by-item purchases, but in terms of total dollars, the total dollars would stay the same because people will spend what they have to spend.

Mr Laughren: I am not going to comment on the Treasury's bowels like you did. Do you buy the revenue arguments that the federal government—I mean, are you satisfied that those numbers—\$23.9 billion I think was the gross revenue from GST and that it nets down to about \$5 billion less than that with credits. I could not understand why the government was proceeding with this tax if it did not raise new revenues.

Second, if the manufacturers' sales tax was a silent killer of jobs, why did they raise it from 12% to 13.5%?

Finally, since it certainly does not do anything for equity in our tax system—which is perhaps a rhetorical comment, given that it is a Conservative government in Ottawa—do you buy all those arguments about the revenues being only \$23.9 billion?

Mr Love: We cannot comment on their motivation.

Mr Laughren: No, I am not into that; just the numbers.

Mr Love: The numbers themselves we have been through. It seems the primary source for those estimates is national accounts. They produce something that says, "Here's consumption taking place in various parts of the economy and here's

what's taking place at the final consumer level." Making a few adjustments to those numbers, and based on the federal assumptions, yes, we may have minor corrections or debates on certain portions of those estimates, but overall I would say that they are very, very close to what we would have come up with. There is not an ongoing debate on the numbers themselves.

Mr Laughren: Is that true also of the inflationary impact? Is it true of the pass-through of savings when the manufacturer's sales tax is removed? You are basically in agreement with the feds on all these numbers, are you?

Mr Dorey: No.

Mr Laughren: I am not talking about motivation here.

Mr Dorey: No. In terms of the numbers, we think there will be more inflationary impact than they project. They project slightly less than 1.25% in the first year and nothing subsequent. We expect 1.5% in the first year, I think a marginal increase in the second year and very little by 1993. In total, we are looking at 2.1% increase in prices versus their 1.2%, so it is a substantial difference in terms of the flow-through, the pass-through estimates. We think markets will cause most of that to be passed through, but it will not all be passed through immediately. We disagree on that particular.

Mr Laughren: On the question of credits to people earning less than \$30,000 a year, I believe that is where the federal GST credits kick in, right? Ontario has a set of sales tax credits as well for low-income persons. We will not get into a debate about the level of those because they are—I do not think you want to anyway, because I do not think you could defend the level of those—but has there been any discussion about co-ordinating the credits between the federal and the provincial government in view of the fact that they are both sales tax credits?

Mr Love: The problem is that the federal credit is paid quarterly in advance and is a completely different mechanism. The Ontario sales tax credit is delivered through the income tax system when you file your tax return each year. So at this point in time we see that it is an effective, efficient way of doing things, but the federal government—

Mr Laughren: Which way is?

Mr Love: Going through the income tax system for the amount of relief that is being delivered. With the federal sales tax system, certainly under the GST, with quarterly credits delivered in advance and given the broader base and so on, there is an argument for that. But at this point in time the federal government has not indicated any willingness to co-ordinate the credits. In effect, they are already assisting with the delivery of our credit vis-à-vis the fact that they administer the personal income tax for us.

Mrs Cunningham: I am sorry I was late. I have tried to watch this as best I could in my office. I would just like to say that I thank the Treasury for, in fact, presenting what I feel is an objective point of view. I appreciated your objectivity in making this presentation today. There are arguments that I could make, but I have heard many presentations and I appreciate the one you gave today. Thank you.

I appreciate the objective presentation today very much. I think it is great when people are trying to work together in the best interest. I think there has been co-operation from the staff both provincially and federally. I am aware of it and I know who the players are because I tried to do my homework before my most recent endeavour into a different sort of politics. I do

appreciate the good smart thinking that we have got here in Ontario and in the federal government, and that is what I wanted to say today. I could pick this thing apart if I wanted to. It would not be worth it. I appreciated the objectivity.

Mr Laughren: Are you apologizing or not apologizing?

Mrs Cunningham: No, I am talking about the good stuff that happens.

Mr Laughren: At the federal level.

Mr Reycraft: —she could take it apart.

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Mrs Cunningham: No, I do not want to leave anything unsaid here. Madam Chair, if I can to my colleague and neighbour, there are points that were made here that one could argue with.

Mr Mackenzie: Which ones are they?

Mrs Cunningham: They were good ones, actually. If you want me to get into it, we will talk about it later. They were the positive long-term and medium-term gains that were presented that I do not think are underlined in the questions that I heard today, but that would not be what one would be about if he were representing the government, so that is fine. My questions would have been different, and I am just saying I will not take up the time of the committee. I appreciated the objectivity, but I do like some of the projections on page 7, impact on investment and impact on trade, which is what it was all about to start with, and I thank you for that.

Mr Mackenzie: I have some concerns, but I am afraid I am not up to my colleague, because I doubt that I could pick it apart totally. On page 3 you list the federal government identification of problems with the current tax, and I am just wondering if Treasury has any comment or agrees with the identification of the problems with the current tax.

Mr Davies: I would start answering Mr Mackenzie by pointing out that we specialize, as we should, in attempting to understand and to know our tax areas and to look to make sure that they operate as effectively as they can. So I would point out that my colleagues and I are not experts in commenting on all the faults or the merits of the tax regimes of the federal government. That being said, the observation made on the differential impact on exports is something that I think can be observed and has been identified by many observers.

Mr Sweeting: I think most economists agree with most of these. They may not agree with all of them, but they agree with most of these problems as they are described. It has been highlighted by the federal government in terms of the existing federal sales tax, and the debate is around whether or not the replacement of this particular tax by the goods and services tax is the appropriate response for the government. But there is not a lot of problem—and certainly we have not unearthed any particular difficulty ourselves—with these kinds of concerns surrounding the federal sales tax.

Mr Mackenzie: That is fair enough. That is what I was wondering.

Mr Laughren: I think I missed a number from one of you. Sorry about that; I did not write it down. It had to do with what the GST is taxing that the retail sales tax in Ontario is not taxing. I know in general it is the services and so forth. Has Treasury done any numbers—and if so, would you table

them—that would indicate what would happen to Ontario revenues if Ontario paralleled the GST with its retail sales tax?

Mr Love: Sure. I think we have been before the committee before to make a presentation regarding the economic and fiscal review, and each year we table this long list of confusing tax expenditures. Included in those are some pretty substantial tax expenditures regarding the retail sales tax.

In overview, if Ontario was to proceed with a GST style of reform, the first thing we would do—one dollar out of every three in retail sales tax revenues is generated from taxing business purchases. So immediately, on the \$9 billion base, if we were to keep the same base but provide exemptions for all purchases related to business, then we would end up with \$6 billion. Of that \$6 billion, and in terms of expanding the base to essentially include most of the service sector, which we now leave tax-free, we would generate about an additional \$3 billion. So on a net basis we would probably end up with a broader base of tax and the rate would stay at 8%.

Mr Laughren: The whole world is revenue-neutral.

Mr Love: It is by virtue of the fact that often—certainly the commentary I have read implies that—goods and services tax style of reform is a revenue windfall for any participant. In fact, what most commentaries seem to ignore is the fact that a significant amount of revenue—in other words, in Ontario's case \$3 billion—is generated from taxing business purchases. Under a GST-style of tax, business is left tax-free, in which case that \$3 billion would have to be compensated for through some rate change.

Mr Laughren: Why would that have to change? What would happen if you left the base the way it is now and just piggybacked—I am not suggesting this, by the way—on the GST on services?

Mr Love: What happens in that case is that you would leave a tax on business purchases, and again to the extent that you expand the base without relieving business purchases, you would then have what they call tax cascading. It is very difficult at the point of sale to identify what is a purchase that is made by other than the final consumer of that product or service, for example, legal fees.

In that case, if you expand it to include all services but at the same time do not provide any relief for business purchases, you have a multiple tax. You would have each stage of production that would be subject to sales taxes and obviously, in the case where the production chain is very long, the tax buried becomes more and you tax and tax and tax. In the case of Ontario's economy, certainly Steve Dorey is the best to comment on that. But in the case of, say, an economy that relies more heavily on manufacturing, the impact of such a change could be difficult.

Mr Davies: If I could just add to a point that I think you were asking, Mr Laughren—and Paul made mention of the fact when we were here in the fall on the economic outlook and fiscal review—there is a table in that document that we could provide to the committee that shows the impact of broadening the retail sales tax to include professional services and commercial services, etc, and the numbers are substantial.

Mr Laughren: As a matter of fact, just as a point of interest, not that I expect Treasury spends nights reading the documents that we produce for alternate sources of revenue at budget time, we had at one point suggested some sources of revenue on business services that are not now taxed at the retail

level. I guess where I have a bit of a problem is I do not see how taxing some services at the retail level affects so directly business purchases. I am having trouble getting that into my head. I am not saying you are wrong; I do not know that. But I have trouble seeing how putting a tax on, for example, computer services so directly affects the business purchases and creates the tax cascade that you are talking about.

Mr Sweeting: The point you make is certainly basically valid. When you are looking at taxing services at the retail level, the way you influence or impact upon business is the extent to which they consume that service for purposes of producing whatever product or service it is. So to the extent that a business uses computers and needs repairs for its computers or needs to buy new software in order to produce that product, then there is an impact as a result of taxing that. The impact is smaller than the actual amount of money you generate, because all of us, going out to the extent we do and buying computers as individuals and that sort of thing, are also contributing to the flow of funds.

The tax-cascading aspect of it varies from product to product and firm to firm, but when we look at—which Bryan referred to—the numbers that Ontario has produced with respect to taxing professional services, for example, there is a great deal of money out there, and if the province were to look at simply, as you suggest, one possibility, it would be just to bring this into the base and say, “That is taxable at this point in time.”

One of the reasons why there is a considerable amount of money is that businesses deal a lot with businesses and, each time, there are a lot of stages in the production. So that tax then gets picked up by the guy who buys the computer, he puts it in his price, he then sells it to another guy who then marks up the tax that was in the previous purchaser's base and then it spills through. So a lot of the tax revenue we generate, or that anyone with a retail sales tax would generate, comes from taxing upon the tax upon the tax upon the tax, through the chain.

Mr Laughren: Okay. If I phone up Dianne Cunningham's broker, since I do not have one, and order some—

Mrs Cunningham: You would be out of luck.

Mr Laughren: —shares in Inco, that is a consumer purchaser, is it not? That is a final purchase; that is not an input into the cost of business purchases.

Mr Sweeting: Yes, I would say that would likely be a consumer purchase in the situation you are talking about. I would imagine that most of the computer market is business-based, but I am sure you could find business services where you might have them supplied internally. I do not know whether lawyers or accountants or one of those would be appropriate, but some of those professional services are handled by employees of businesses, so there is no tax flowing in those particular kinds of circumstances. But just about any service is going to have a noticeable component of retail purchase by business in it.

The Acting Chair: I do not see any further questions. I would like to thank you very much, Mr Davies, Mr Sweeting, Mr Love and Mr Dorey. You have been very clear. Thank you very much. You were very helpful.

ORGANIZATION

The Acting Chair: The next item on our agenda is the committee budget, which I think you all have in front of you. If you take a look at the committee budget, apparently it has already been approved by the subcommittee. If there are any questions, we can get some answers to them.

Apparently last year the committee asked for \$170,000, got \$140,000 and spent \$90,000. The reason for the larger number this time is providing for six weeks of hearings, three during the summer recess and three during the winter recess, and also providing for a week of travel prior to the budget, which involves travel both of members and of staff. So the reason for the larger request is summed up there. Are there any questions that anybody would like to ask about that?

Mr Laughren: Do you feel this is fiscally responsible, Madam Chair?

The Acting Chair: My history with this does not allow me to make a comment on its fiscal responsibility, but I assume the subcommittee is happy with it.

Mr Laughren: I am not a member of the committee, so I will stay out of it.

The Acting Chair: Mr Reycraft moves that the budget be approved.

All in favour of that? I do not see anybody opposed, so that is fine.

Motion agreed to.

The Acting Chair: The other item we have on the agenda is the future agenda, in fact, which you also have. I do not know if there are any questions associated with that. On the second page are the proposals for our future agenda. Apparently the subcommittee has already looked over that as well. What it lists are the topics that we have decided on and the possible witnesses. We have already had one set of witnesses, which was the Premier's Council. If there are any questions or concerns about that, we will take note of them.

Mr Laughren: I am not a member of the committee, but I do like to join it from time to time. Is this an agenda for the immediate future? Is this for the month of June basically?

The Acting Chair: Yes. It is the most immediate agenda. We have already begun on it by having the Premier's Council people appear.

Mr Laughren: Right. I like very much the idea of having the Industrial Restructuring Commissioner here at the earliest possible date.

The Acting Chair: I am told by people more knowledgeable than I that the subcommittee in particular wanted to have him as well.

Mr Laughren: Oh, and the Ontario International Corp. That is Frank Miller's boondoggle.

The Acting Chair: All right, I see no questions. I would like to adjourn this meeting. Thank you very much. Thank you for being gentle on the Chair, who has done this for the first time.

The committee adjourned at 1144.

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Le jeudi 31 mai 1990



**Standing committee on
finance and economic affairs**

Industrial strategy

**Comité permanent des affaires
économiques et financières**

Stratégies industrielles

Chair: Steven W. Mahoney
Clerk: Lisa Freedmen

Président : Steven W. Mahoney
Secrétaire : Lisa Freedmen

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 31 May 1990

The committee met at 1008 in room 151.

INDUSTRIAL STRATEGY

The Chair: I would like to call to order the meeting of the standing committee on finance and economic affairs. There will be other members who are currently speaking in the Legislature who will be joining us.

INDUSTRIAL RESTRUCTURING COMMISSIONER AND SPECIAL ADVISER TO THE PREMIER

The Chair: The purpose of our session this morning is to discuss the industrial strategy and policies philosophy of the province. Joining us to make a presentation this morning is Malcolm Rowan, industrial restructuring commissioner and special adviser to the Premier. Peter Milley is senior policy adviser and Harry Baumann is deputy commissioner.

I appreciate your taking the time to come this morning. I assume that one or all of you would have some brief remarks to make and at some point go to questions from members.

Mr Rowan: We do have a presentation we would like to give. It covers the work we have been doing for the past number of months. We are open for questions at any time throughout the presentation, or you may prefer that the questions be held until the end of the presentation. I am in your hands on that score.

Mr Milley, as I think I indicated earlier to you, has to leave at no later than 11:15 because he has to go to northern Ontario to visit a number of sawmills there.

With that, what I would like to do is to start the presentation. I will give about half of the presentation and then Dr Baumann will make a presentation on the food processing industry.

The overview of our remarks this morning is presented on the screen.

The Chair: Do you have a hard copy of that?

Mr Rowan: We will make available hard copy afterwards. No problem.

The Chair: I think what we will do, if the committee agrees, is hold our questions until the end and allow you to carry on through.

Mr Rowan: The discussion areas that we would like to cover with the committee are terms of reference, the relationship to the Premier's Council, to look at various restructuring models that are out there in various parts of the world—we are not the only jurisdiction that has undertaken this kind of work—to talk about framework policies, discuss to some extent the free trade agreement and the implications of that, supply management as it relates to the food processing industry and resource pricing.

Those are some of the areas that we will be touching on and we will do this in the context of the two industries that we have been asked to look at. We were asked by the Premier to look at

the food processing industry and the forest products industry, which has two major components, pulp and paper and sawmills.

I think it is important to keep in mind that these are two rather mature industries as far as the Ontario economy is concerned and also that government significantly influences the economic rules of the game within which those two industries operate. I will bring out how that influence takes place and what that does to the health of those two industries.

The common denominator of all of the discussion areas and the two industries is global competitiveness, a theme that was identified in the Premier's Council.

What that means is we are looking at costs and the components of costs: labour, capital, the social costs of various government programs and taxation and the cost associated with keeping a healthy environment. We are also looking at prices, the price at which our products are set relative to other jurisdictions. Here we have to keep in mind the impact of exchange rates and trade barriers. Certainly not last and certainly not least is the quality of our products.

In terms of some of the conclusions that we have come to, we will be discussing the need for new policy agendas because of the significant changes that have taken place in the last few months with the free trade agreement and elsewhere. The outlook really depends upon our willingness to make some of these changes.

With that as an overview, I would like now to move specifically into the mandate of this office that we received from the Premier. Our time frame is a three-year time period, 1988 to the end of this year. The initial focus is on two mature industries, the forest industry and food processing.

We have a roving commission. We are not tied to the bureaucracy. We are given a pretty free hand. Our influence is not a legislative influence. It is moral suasion. I think that will come out as we go through the rest of our presentation.

In terms of what industrial restructuring is, there are many definitions, almost as many definitions as there are individuals who have an opinion about how the economy should be structured, how it should be shaped. For some people, it is investor confidence. For others, it is worker co-operatives: Why do we not get worker co-operatives and worker ownership? For still others, it is self-employment. Labour unions tend to focus on minimizing the pain for those employees who are disadvantaged or whose jobs have become redundant or who have lost their jobs because the company has gone out of business.

So there is a whole spectrum of opinion out there with little consensus as to what restructuring is all about. If you put those opinions along a spectrum, as you will see on the screen, where our area of activity has concentrated, by direction from the Premier, is to look at trends and new opportunities that are abroad that could affect, positively or negatively, the two industries we have been asked to look at. We are not focused on plant closures and the labour adjustment programs that are now available through the Ministry of Labour primarily.

To put our role in perspective, we are at the trends and opportunities end of the spectrum, looking at the current policies that affect the economy in which these two industries, food processing and the forest industry, operate and looking at

what is happening out there that could negatively or positively affect these two industries, free trade being one of those trends. It could create opportunities or it could have very detrimental effects on the industries.

Moving from that spectrum to where the Ontario version of industrial restructuring fits into the various models that are out there—whether it is the Japanese model, the French model, the Swedish model or the British Columbia model of industrial restructuring—there are a number of people in this province who believe this office was established using the BC model. That is not correct at all. The BC model was set up by legislation. We are not established by legislation. The BC legislation provided the BC industrial restructuring commissioner with powers to override certain other pieces of legislation. The BC commissioner operated at the plant closure end of the spectrum, not at the other end of the spectrum that I described earlier.

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We are a small secretariat. We are focused on a limited number of mature industries. We have a sunset mandate and moral suasion is our principal stock in trade. If you take a look at it in terms of another kind of spectrum, if you put all of these models on another spectrum, you find that we are right at the end, opposite where the Japanese version of restructuring is located.

That will give you a feeling, I hope, of the kind of role that we have been asked to play and how we differ from the mechanisms that other jurisdictions have put in place.

In terms of our relationship with other actors in the economic system that we have been asked to look at, we relate to industry. We relate to the Premier's Council on technology because, in a very direct sense, we are a creature of that council and some of its recommendations. We relate to the Ontario Federation of Labour. Early on, we established a liaison with the federation of labour and its director of legislative research. We relate to the Premier and ministries and agencies of government. We are not part of any particular ministry, except for administrative support, and that we receive from the Ministry of Industry, Trade and Technology. I report to the Minister of Industry, Trade and Technology in a nominal sense.

When you look at some of the policy problems that governments have as they try to change the system that may be in place at the present time to a new system, you find that the way in which government is organized often inhibits the way in which problems are organized. Governments and government policies tend to be organized in a vertical manner. Problems tend to be horizontal in nature and cut across the various ministries.

If there is one notion that I would like to establish early that has come from our work, it is that if these two mature industries, food processing and the forest industry, are to be competitive, then we have to get our relative costs in line, our costs relative to other jurisdictions. As we go into our presentation, I hope you will get the feeling that government policies have a lot to do with establishing costs, whether it is costs for the food processing industry or costs for the forest industry.

I would like to go on to another of the discussion areas, our relationship to the Premier's Council. I understand that at your last meeting you had a presentation from a representative of the Premier's Council secretariat. I have also indicated that the global competitiveness is a theme that we are focused on. It is a theme that was identified by the Premier's Council. You may recall from the council's reports that the council felt that there were seven conditions for global competitiveness and we have

attempted to depict this in the schematic that is now on the screen. Industrial restructuring is one of those conditions, as are fostering a consensus, education and training and so forth.

There are differences, however, between our approach and the Premier's Council. The council's emphasis was on increased exports and in trying to gain higher value added products. We agree that those are important areas of emphasis. However, we would add that import replacement is an important goal as well, and that in addition to higher value products we would add that cost competitiveness of commodity products is an essential goal if we are going to have, for example, a competitive food processing industry.

In addition, the focus of the Premier's Council was basically preliminary research and analysis. It pointed the way and it was a very important addition to the policy perspective that is so essential if we are going to have changes to the economic rules of the game. We have gone beyond that. We have built upon the work of the Premier's Council in the two industry sectors that I have mentioned, where we have not only gone into research and analysis in greater detail but identified the kinds of policies that would need to be changed.

The Premier's Council, by and large, did a firm analysis by companies, type of ownership, size and growth. It looked at the kinds of assistance programs that might be desirable. It also looked at and identified the concept of threshold firms, the notion of growing your own multinationals.

We have gone beyond that. We think firm analysis is important but we also think that industry analysis, detailed industry or sectoral analysis, looking at subsectors and product lines, is key to an understanding of the kinds of changes that will be necessary. We have looked at the horizontal or what we call framework policy changes that are essential in the so-called input costs to companies, taxes etc.

Finally, we have looked at what is known as locational economics, that is, why would a company want to invest in this province as opposed to somewhere else? What is it that would attract a company to put its next investment dollar in Ontario? Are costs in line? Are the regulations that they have to live by more attractive or less attractive here than somewhere else?

We believe that those are the sorts of influences that cause companies, when they are making an investment decision, either to want to stay in Ontario, to come here as a new investor or to go elsewhere. With free trade, locational economics is terribly important. It is an issue that we have to understand and we have to make adjustments in our policies so that we are not out of line with our competitive jurisdictions elsewhere in North America.

With that, I think it is appropriate now to turn to a specific review of the forest industry. It will be a summary review. We will go into the food processing in more detail.

The areas of research that we have been undertaking in the forest industry are basically four. How do you improve the forest industry's competitiveness? Ontario, unfortunately, is a high-cost jurisdiction in many respects and is likely to remain so. We have identified some costs that may be reducible through policy changes and identified actions that—

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Mr Daigeler: Is it possible to ask questions?

The Chair: We had decided before you came in that we would hold them to the end. If you could make a note of it, it would be helpful.

Mr Daigeler: It is going to be difficult.

The Chair: The problem with getting into questions is we will wind up not getting the presentation. It should not be difficult just to make a note, if you would not mind. That would be helpful.

Mr Rowan: We have also identified some actions to increase the value added to overcome the inherent high costs of the forest industry. We have looked at resource pricing. How do we in this province price timber? Is it the best way? Are there other ways? We have looked at market diversification.

Most of the spruce, pine and fir lumber in this province which does not get used in the domestic market now goes to the United States. It is a commodity. The effect on the sawmillers of producing a commodity is that they are price-takers and not price-makers, so they suffer the swings of being a supplier of a commodity in a North American marketplace.

However, there are markets in the world where you can get higher value added for essentially the same woodfibre. You have to change certain production processes, but that is not insurmountable. The return to the sawmiller can be significantly higher than continuing to ship two-by-fours or dimension lumber to the United States housing market.

We had a team of European buyers come to Ontario recently and we showed them through the principal sawmills. They were very impressed with our woodfibre and with the companies they met. One company out of Thunder Bay—a pioneer, if I can use that term—is now shipping three quarters of the production of one of his mills to the European market. It has become a lifesaver in terms of cash flow for him. We are hopeful that we can persuade other sawmillers to diversify their production to Europe.

A fourth area in terms of our research agenda is forest management decision-making. It has many aspects, looking at the owner, manager and stewardship roles for this public resource that we have out there. We are looking at such things as the regulator/allocator role of government as well.

The forest industry is not a simple industry. It is complex. It is interrelated. Pulp and paper mills are customers of sawmills for the wood chips. It is a very important industry for this province. In terms of direct employment for logging contractors, there are about 6,500 to 7,000 in the province.

There are various types of arrangements, by the way, with the sawmills. They cut the wood. The wood flows to about 800 sawmills, but only 28 of those are significant in terms of size in the spruce-pine-fir part of the industry. There are about 38 white and red pine mills and about 63 hardwood mills. Their product may flow to the pulp and paper mills in the form of wood chips. It is important to keep in mind that about 30% of an individual sawmill's revenue comes from the sale of wood chips to pulp mills. It is not insignificant; it is about \$300 million. There are about 36 pulp and paper mills, 17 in northern Ontario and, surprisingly, about 19 in southern Ontario.

One of the trends we should all be very cognizant of that is now well over the horizon, if I can use that term, that is going to potentially adversely affect the forest industry is the demand for the use of recycled old newsprint. How those legislative changes, principally in the United States, are put into effect could have a dramatic effect on the demand for wood chips of individual sawmills. When you keep in mind that we are dealing with sawmills that are the sole employer in many cases in communities in northern Ontario, the potential detrimental impact that legislation in the United States could have on our forest industry in northern Ontario is something to be looked at very carefully, and we have been doing that.

The schematic on the screen is designed to give you an overview of the industry structure and fibre flow.

Because Mr Milley has to leave by 11:15 and because he is very knowledgeable in this area, when I finish this section, Mr Chairman, you might wish to entertain some questions specifically on the forest industry and allow Mr Milley to be here to answer those questions.

In terms of government and the sawmill industry—and you will notice that I have gone to the sawmill industry side of the forest industry, but it also has a similar impact on pulp and paper—what we have tried to do is look at this government-industry relationship from an economic system perspective. The schematic that is on the screen now is an attempt to put together as many of the principal components of the economic system as we can.

Looking in the top box at system determinants, one very important public policy that influences the economic system is how land is used in this province, given that in northern Ontario the land is owned by the crown. How the government allocates the use of that land through the various land use planning systems has a very important impact on the economics of the forest industry.

Another major system determinant is our forest inventory. How much wood do we have? Where is it located? How mature is it? What is the cost of getting that wood from the forest to the wood processing plant?

A fourth determinant is the rules and regulations that the Ministry of Natural Resources has in place about the way in which woodfibre is allocated. That includes log and chip directives that the ministry may impose on a company.

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We have also looked at costs and revenues as they relate to individual companies: stumpage, the cost of woodfibre, forest management operations, road limits, trucking regulations, Workers' Compensation Board levies, property and other taxes and the export tax that has been imposed on softwood lumber exports to the United States.

We have also analysed the competitive environment of this industry: competing use decisions, environmental regulations and restrictions that the government imposes, transportation deregulation, exchange rates and labour laws and practices. This competitive environment is one where you are making judgements and you are analysing Ontario relative to other jurisdictions, because in this industry, with a commodity product, the lowest-cost producer is going to be the one that wins the day.

All of these system determinants, firm costs and revenues and the competitive environment, focus around one major issue, the cost and ease of doing business in Ontario, and as I said, compared to other jurisdictions.

Another perspective, and it is perhaps looking at the same kinds of data but in another way, is what we call the economic system triangle. Government, again, is a very major player. It is involved in the allocation of wood to individual companies, and it does so, in the way in which it allocates wood, and price, with very little relevance to the marketplace. The price of wood in this province is not terribly market-sensitive, and there is a major implication for that in terms of the competitiveness of the users of wood.

The government has a relationship to pulp and paper mills, and here you have a few large companies, many of them international corporations, financially quite strong—certainly, relative to sawmills, very strong—and most of them have what are

known as forest management agreements with the government. The market forces that act on pulp and paper companies determine the value of the timber, but as I said earlier, the way the province prices timber is not related to the marketplace.

Looking at the government in its relationship to sawmills, what we find there is that there are many small companies, many small firms. Most of them are family-owned, most of them are financially weak and few have access to these forest management agreements. Again, the market forces acting on sawmills determine the timber value, but like the pulp and paper mills, we do not price timber to sawmills in a market-sensitive way.

Sawmills and pulp mills relate one to the other, as I said earlier, through the chip market, and here what we have is a situation where the market signals are often quite distorted. They are distorted because we have a system of log and chip directives, and we have labour contracts too, that in some cases say that a pulp and paper mill cannot purchase, particularly, a percentage of its woodfibre from sawmills because all of the woodfibre that the pulp mill uses must be cut by the employees of the pulp mill. That is a distortion in the economic system which tends to increase the price of woodfibre to pulp and paper mills and reduces the market for wood chips available to sawmills.

Another perspective is if you look at the examples of direct and indirect government involvement from three points of view: the wood supply available to sawmills, the impact of government involvement on the sawmills themselves and then how government impacts on sawmills from a market point of view.

What this schematic is designed to demonstrate is that most of the government's involvement is at the wood supply end and diminishes in terms of its impact on sawmills as you move towards the marketplace. There are some consequences of this, in that the wood supply is the largest single ingredient in terms of cost to sawmills, and therefore what this schematic does, I think, is demonstrate that government is a major player in the economic system for the sawmill industry and, I think it is fair to say, for the forest industry as a whole.

As I said earlier, since that is the end of the forest industry section of our presentation, it might be an opportunity for questions. We do have a more complete presentation on the food processing industry, so I am looking at the time. I will be in your hands as to how much time is available.

The Chair: Perhaps we could take a few moments. I know Peter has to leave within about half an hour, I guess. How much time do you feel you need, Peter?

Mr Milley: It depends on the questions, but I would think certainly 15 to 20 minutes would be enough.

The Chair: Okay then, let's go.

Mr Daigeler: I have just a question of clarification. You were saying that the Ontario forest industry, I guess by nature, is high-cost. Why is that—in relation to what?

Mr Milley: The reference to high cost is that Ontario is a high-cost jurisdiction for the industry to operate in relative to some other jurisdictions in the world. The best comparative research data we can find indicate that our mills, both pulp and paper mills and sawmills, have the highest delivered wood costs on this continent. The causes of that are related to the various factors of the cost of harvesting, labour rates, stumpage rates, WCB levies and so on.

Mr Daigeler: But Mr Rowan indicated that there is likely nothing to be done about the high cost. From the factors that you are just indicating, these are all variables.

Mr Milley: That is correct. If I may, I do not think we meant to imply that nothing could be done.

Mr Rowan: If you got a system of resource pricing that was more market-sensitive, then the cost of woodfibre to the users could vary in accordance with the value of the wood at any point in time. In other words, when the market is strong, the wood is more valuable, but when the market is weak, the wood is less valuable. If you think in economic rent terms, where the value of the wood to the owner—ie, the province—is something that fluctuates, just like the price of housing fluctuates, when the market was strong a few months ago, there were some very handsome prices being paid for houses. The market today is less strong and the house prices in Toronto have gone down substantially. The same with wood, but if you do not have a system that can take that into account and you maintain the price of woodfibre to the user regardless of the marketplace, then you are out of line with your competition. That is one area.

Another area is to look at the labour agreements that have been put in place in this province. They are private contracts, but what they tend to do is, if a company and a labour union agree among themselves, for whatever reason, that there is going to be a limit on how much woodfibre a pulp mill can buy from somebody else, say a sawmill, that agreement interferes with the right of the Minister of Natural Resources to manage the forest and to get value for the resource. Somebody else has brought in a constraint in the marketplace. Is that right or is that wrong? I think that is a policy issue and the government can take a look at that. But it does interfere with the economic system. You are not getting the cheapest woodfibre being used by a processor if you have those kinds of contractual barriers in the way.

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Those are some of the things that can be addressed and these are the kind of, what we call framework policies that need to be examined, where our research has been going. We are not here today to suggest that we have all the answers. This is a very complex industry. These relationships have been established over many years. I hope the examples I have given will give you an idea of the sorts of things that can be brought in that tend to reduce the cost of doing business in this province so that we are more competitive.

What Mr Milley is going to be doing today when he goes to northern Ontario is to focus on the other end of the equation, or the other side of the equation, if you will; that is, what can you do to increase the value of the product you produce, even with no change in the cost structure, just get more return for the same woodfibre? That is what the European market appears to offer to Ontario. We think it is an opportunity that should not be missed. It will require some very significant attitudinal changes on the part of the sawmillers. They will need to be nurtured, if you will, and helped in order to become accustomed to dealing with a new kind of customer. The Europeans are very demanding in terms of quality, in terms of the specifications that must be met, but the return in terms of value added is so significantly greater that it is an opportunity that cannot and should not be ignored.

Mr Morin-Strom: Thank you very much for your presentation. I am pleased that you have this focus on the forest products industry that is so important in northern Ontario. I

think northerners, though, would be quite concerned about your focus on costs from the perspective that within the north costs would be predominantly labour costs and as to that focus, particularly when you get into union contracts being a cost factor, the implication is whether you want to bring down the amounts of wages paid in northern Ontario.

To me the issue has to be: "How much are we getting out of the woodfibre we have there? How much are you generating in terms of employment and what are the wage levels associated with that employment?" I guess one of the big concerns for me, in particular, is this tradeoff between even the two major sectors there, sawmills versus pulp and paper. I notice in your figures you are showing approximately 50% of woodfibre is going to each. However, the pulp and paper industry, which is the big player in terms of size of companies, is generating some \$4.7 billion in value of product—36 pulp and paper companies—while 800 sawmills were producing \$1.2 billion.

I wonder whether you could give us some kind of indication what the real impact on the north is in terms of numbers of jobs in those two industries, and the total level of wages paid in those industries and whether you have looked at how it is that we might be able to get as much total economic impact as possible in the north in that tradeoff between what is generating more for the north, sawmills or pulp and paper or even other products, when you talk about higher value products?

Mr Milley: Let me start first with the employment issue. The slide we showed earlier indicated some 5,000 to 7,000 jobs in the logging industry. There are another 7,000 in the sawmills directly and another 10,000, approximately, in the pulp and paper industry. One of the difficulties we have in a research sense is trying to sort out precisely what the employment numbers are, short of doing a census mill by mill. It gets complicated because it is difficult to sort who is logging for whom and who is or is not reporting workers as loggers. In round number terms somewhere between 25,000 and 30,000 is the total employment in this sector. A majority of that is in the north. I will be pleased to give you subsequently a more detailed breakdown of what we have in the files to give you where they are as much as we can identify them by community.

Can we go back, though, to the original question about fibre flow, first of all, to point out that while at the roundwood level or timber harvest level about 50% of the fibre flows to each sector, the sawmill and the pulp and paper sector, it should be noted that approximately 50% of the fibre going into the sawmills ends up going back to the pulp mills in the form of wood chips. The fibre flow, therefore, is in fact heavily weighted, ultimately, to the pulp and paper sector.

The reference that Malcolm Rowan made earlier to the labour contracts is important. We do not mean to imply at all that in the issue on costs there is one of wage rates. In particular, it is more a matter of the restriction that exists in many of the collective agreements in the pulp and paper sector that inhibit the ability of a pulp mill to purchase fibre from an outside supplier. Typically, the definition of "outside supplier" varies across the industry, but it usually means the suppliers that do not harvest on the company's licensed limits or that in some respects do not use loggers from a particular local of a union. There are variations. The typical restriction in the Ontario industry is that a ceiling of 15% is placed on the outside fibre purchases by the pulp and paper mill.

What therefore happens, to come back to the point you raised with respect to getting more out of the forest, is that there are inefficiencies in the flow of fibre. If you travel around the north you will see that there are truckloads of chips that pass

each other on the highways going in different directions, truckloads of logs that do exactly the same thing. It is because companies are forced into distorted mechanisms for harvesting and for hauling wood from longer distances.

The other issue that arises here is that the tenure system we have in the province has for good, solid, historical reasons favoured the pulp and paper sector. In the north in Ontario the pulp and paper sector was there first, and when the government of Ontario, back in the early part of this century, set out to attract the pulp and paper industry to Ontario, it did so by giving the industry long-term tenure—permanent tenure, in fact, at the time—on vast tracts of the forest.

The sawmill industry, as we know it today, and that is predominantly the softwood dimensioned lumber industry across the north—Hearst, Chapleau, Kapuskasing and so on over to Thunder Bay—is really a rather recent development in the industry. By and large they came to Ontario in the late 1940s and the early 1950s and the growth really took place in the early to mid-1970s. So in geographic terms, large parts of the forest are tied up by the pulp and paper companies. The sawmills, then, are getting fibre at the fringes, if you will, or at the margins of the licensing system. Very few of them, for example, have forest management agreements.

All of these conditions then come together and require the sawmills to have to haul logs for very long distances. Haul distances in northwestern Ontario in excess of 300 kilometres are by no means uncommon. We see fibre flowing in terms of wood chips. We see chips flowing from Hearst down to Marathon down to Red Rock and then over in the easterly direction as well.

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All those factors come together and create transportation and harvesting costs because of the distances that are involved in actually undertaking the logging. So there are efficiencies that can be gained through modifications to the allocation system to ensure that sawlog material is directed to sawmills and that pulp mills get pulp material. Ultimately, as we have indicated, the other side of the equation on costs is of course the product value. If we can manage to get the industry, particularly on the wood products side, moving towards higher valued products, there will be greater value added to the fibre, there will be more that can be done with the fibre, and presumably over time we think we will even be able to see increased employment.

Mr Morin-Strom: May I ask one other question?

The Chair: I have a few other questioners, but go ahead.

Mr Morin-Strom: I would like to ask one on location economics and particularly what recycling implications will be on location economics. Obviously very little paper is generated in terms of waste paper in northern Ontario in comparison with southern Ontario, and in fact most of the newsprint that comes out of northern mills goes to the big US markets like Chicago and New York, Chicago particularly in areas such as where I am from. How is it that we are going to be able to support recycling and use that as feedstock in mills in northern Ontario, or are those location economics really to our disadvantage? What are we going to have to do to fight that?

Mr Milley: First of all, we are in the process of working with a consulting team now to examine this question in particular detail. We do not yet have the study completed. What the findings indicate so far are that the decisions on locational

economics, where de-inking capacity is going to be located, is really a very company-specific and indeed mill-specific question.

A good example of this is the Canadian Pacific Forest Products decision to invest in de-inking capacity in its mills in Thunder Bay. Its competitive advantage in that situation is being able to take advantage of its ownership position with Laidlaw, Laidlaw as both a transportation company and a waste manager, and being able to secure long-term supplies of old newsprint in the United States. It is using the transportation capacity in the Canadian Pacific system to backhaul to Thunder Bay where it makes economic sense for it to do it given its existing investment in Thunder Bay.

There is no simple answer to whether we are inherently at a disadvantage or at an advantage at this point. The question has to be examined on a mill-by-mill, company-by-company basis in order to sort out what is likely to happen. I cannot give you a better answer than that, unfortunately. There are no simple answers on this one.

Ms Hošek: I am interested in some of the trade opportunity questions. You mentioned the visit of some Europeans who were interested in the way our sawmills worked. Could you tell me if that is in use at all, what countries they come from and why here would in any way be more interesting to them than would Sweden and other places that are closer by.

Mr Rowan: Let me answer part of the question and then I think Peter would be best able to complete it because he has actually been to Europe, looked at the market there and visited the mills with these European buyers.

What we did a few months ago was go to a number of European countries. The principal ones where the markets lie are Britain, Germany, France and Italy. Some of the other smaller countries are also potential, but those are the major ones. Interestingly enough, the demand for wood among those countries, the type of wood, the quality of wood, is different. Italy is at the low end of the market, Germany and Britain the high end, and France somewhere in between. That is very good for Canada and for Canadian mills because if they have the capacity and the volume to sort wood, then they can mix and match and serve a very broad market spectrum.

Peter went to Europe with two consultants. The thought was not, if you will, "Maybe there is a market there." It had already been determined that there is a market there. The issue becomes how we can convince more Canadian or Ontario sawmillers that the market is there, that it is profitable and that it is a sustained demand market, and what is it that they are going to need to do in order to successfully gain access to that market.

It was with those kinds of questions that Peter went a few months ago. As a result of that visit, we had a request shortly thereafter from a major exporter company from the west coast, as a matter of fact, which said, "I would like to bring some buyers from Italy, France and the United Kingdom to come to see our mills." Peter accompanied them to the principal sawmills in northern Ontario. The reaction was very favourable on the part of the buyers in terms of the quality of the woodfibre and perhaps less enthusiastic in terms of the ability of most of the companies to quickly adapt to selling in Europe because of the attitudinal problems more than anything else.

There has been a myth around that transportation costs from Ontario to Europe are going to be so high that it is going to be impossible to earn a decent rate of return. It is true that transportation is more expensive to Europe than it is selling into the United States, but if the value of the product is much higher

in Europe, then there is more than enough margin to pay that transportation and still earn a better rate of return, particularly when you have a very depressed housing market in the United States.

I am stealing Peter's thunder because he is off on the second leg of his, shall we say, persuasion trip today to try to get some of these sawmillers to begin to think positively about the European market and make the kinds of changes required that are going to make them welcome guests. Peter can also describe the efforts he has been undertaking with respect to the Canadian Lumbermen's Association and the Bureau de promotion des industries du bois.

Ms Hošek: One of the questions I still find myself puzzled by is, why us and not Sweden?

Mr Milley: I was going to start with the issue. If we think about the diagram we had at the beginning of the forestry section, the flows of fibre within Ontario, the same thing happens on a global scale. What you look at in Europe is where the demand has been and where the supply has come from, and traditionally Sweden has been a supplier.

But Sweden and the Scandinavians generally are now faced with a situation where their ability to supply dimension lumber is now diminished for reasons of strong domestic demand and because they are in an environment, and have been now for a while, where there is significantly higher pressure on their resource. They have a much smaller land base obviously than we do. They have focused on extracting increasingly high value per unit fibre from their resource. Consequently they are moving up a value chain and leaving segments at lower value ends, levels which are not being filled.

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Interestingly as well, the upheaval in eastern Europe has had a significant impact. Nobody knows precisely what that impact is yet going to be, except that the level of uncertainty about reliability of traditional supplies, particularly from Russia, has increased quite dramatically. In West Germany, for example, a particular source of supply has been what is called the inter-German trade in volumes of about 400,000 cubic metres annually up to 1989. With the changes, that annual volume has dropped, and the expectation is this year that West Germany will not get more than 100,000 cubic metres.

West German industry is a very primary user of wood in West Germany. It is going into what are called industrial planing mills where they make mouldings, windows, doors and all kinds of fancy things. They have quite literally taken wood products to the level of a high-tech industry. They are looking for fibre, and the bottom-line impression that buyers from Europe have is that the fibre in Ontario, which is largely an old growth—it is called an old growth even though some of it is in fact regenerated; white wood, predominantly the white spruce—is a dense fibre. It is particularly good for milling into component products for joinery-grade work and things of that sort. By and large, the Europeans will pay as much as four times what North Americans will pay for it.

Ms Hošek: That will swallow up a lot of transportation costs.

Mr Milley: You have got it. It sure will.

Ms Hošek: That is very interesting. I am going to want to come and talk to you some more when you get back.

Mr Milley: I would be delighted.

Mr Ferraro: I will try to be brief. Mr Milley, could you tell me the approximate proportion in the forest products division of export to domestic usage, the trend, to what extent it was twinged by Mr Rowan's comments about the major cost being the acquisition of the wood and to what extent, especially in light of the free trade agreement, the exchange rate has a predominance?

Mr Milley: First of all, the free trade agreement really is of little impact. We have not been dealing with a dutiable set of products at all. Historically, Ontario has always sold its lumber in the United States. One of the reasons for that is when the mills were expanded in the early 1970s—this is particularly the softwood industry—they installed kiln-drying capacity. Apparently the major spruce-pine-fir mills have the capacity to dry virtually all of their production. That enabled them to get a premium price for dried wood, which the American market—

Mr Ferraro: I am more concerned about the percentage. I know you are stuck for time.

Mr Milley: Traditionally, they have sold virtually 85% to 90% of their output in the United States. With the imposition of the export tax at the beginning of 1987, that percentage started to decline quite dramatically and today is probably not more than about 20%.

Mr Ferraro: So outside of the United States what would the extent of our export be?

Mr Milley: Very small. It is in the neighbourhood of 50,000 cubic metres. For all intents and purposes it is one mill in Thunder Bay.

Mr Ferraro: So most of our export is to the United States?

Mr Milley: Yes.

Mr Ferraro: And most of our jobs are subsequently reliant on that export market?

Mr Milley: Have traditionally been. Currently, we are selling in southern Ontario.

Mr Ferraro: Okay, but you are still around the 85% range of export?

Mr Milley: No, we are down to 25% export, and the only thing that has kept this industry alive really since the beginning of 1988 has been the strength of the southern Ontario housing market. The fact that it is soft, I feel quite comfortable in predicting, will cause big problems.

Mr Ferraro: Let me ask you this, because it has been a particularly bothersome issue with me. Five years ago, the distinction in the exchange rate was 28 cents. Now it is 14 cents. If it was 28 cents today—hypothetically, I am going to ask you to look into your crystal ball—we would not have near the problems, would we?

Mr Milley: What we would do in fact is essentially just barely offset the effect of the export tax from where we are today. I should point out that at the beginning of 1987 when the export tax was introduced, the value of the dollar was in the neighbourhood of 73 cents. The appreciation in the value of the dollar plus the 15% export tax meant that Ontario producers, in effect, took a 30% price hit in about 18 months in the US market.

Mr Ferraro: I will conclude with this. I guess what frustrates me is that it just appears that Ontario and you

gentlemen, being part of the problem, as well as all the members, particularly members from the north, are doing whatever we can and an admirable job trying to help this industry. But to a significant degree, and I am not trying to pass the buck here, the federal government has a tremendous responsibility in the whole damned thing, and the Bank of Canada, in my view.

If you have 85% export market and now all of a sudden you cannot compete and export taxes have gone up, coupled with the slower demand which is part and parcel of the high interest rate policy, how much can you do?

Mr Milley: That is certainly a problem, if you are looking at the US market. I would also point out that the export tax is in fact a federal tax.

Mr Ferraro: That is the exact point I was making.

Mr Brown: I will be quick. I represent a northern riding, one which has a great deal of interest in forestry issues, having E. B. Eddy in my riding and just outside of it, its subsidiary at Pinewood. So they are an integrated producer.

One of the issues I guess that I hear a lot about is this private contractor versus what is done on the forest management agreement, what chip prices are and all the flows and difficulties like that. My constituency office and a lot of my time is taken up talking to Ministry of Natural Resources people.

What I really wanted to know when we talk about this, what is the percentage of jobs between northern and southern Ontario? There is a belief out there this is really a northern Ontario issue where in fact I think it is certainly an Ontario issue. Can you tell me about how many jobs in southern Ontario are related to this industry versus the north?

Mr Milley: If we deal with the forest products industry in toto, slightly more than half the jobs are in the south, if I recall correctly. I will check the number for the member and make sure we have a correct percentage in your hands. You get into the paper and the allied products, and it is tough to sort that out frankly. A lot of the paper stuff in the south is in fact recycling-based, and trying to extract what is truly forest-based versus what is not directly forest-based becomes quite difficult because of the way the statistics are gathered in the industry. It becomes very difficult for us to do that but we could get you some detailed numbers.

In toto, however, in the paper and allied products sector, wood products sector and logging, you will find a slight majority of the jobs will be in the south. It is becoming more and more a southern industry. Interestingly, the total growth in terms of aggregate employment has taken place in the south, not in the north.

Mr Brown: It would be fair to say perhaps it is like most resource industries, in that there are fewer people employed in the actual harvesting etc.

Mr Milley: As mechanization increases.

The Chair: I know you have to leave us. Last summer I toured the mill you referred to in Thunder Bay that is exporting into Europe. One thing that came to my attention which I was a little surprised at was the effect that deregulation in the rail industry has had on the industry and the huge stockpiles of railway ties that were sitting there at that time. Is that still a problem? Have they found any alternative markets?

Mr Milley: They still have a fairly significant inventory of railway ties—at least they did when I was there two weeks ago.

But let me also point out that there is an up side to deregulation in the railway industry, and that is that Chapleau Forest Products finds it economic to ship wood via rail to Vancouver to go to Japan.

The Chair: Interesting.

Mr Milley: It is in fact cheaper to ship it to Vancouver because of empty backhaul capacity on CP Rail than it is to ship it to Montreal.

The Chair: I know you have to leave us. I assume Mr Rowan is going to stay for the balance. Thanks for your input this morning. Mr Rowan, do you want to carry on with the balance of your presentation.

Mr Rowan: What I would like to do is ask Dr Baumann to lead the second half of the presentation on the food processing industry. I will be the one who puts the slides on the machine.

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Dr Baumann: In terms of the food processing industry, one of the most important things to recognize right at the beginning is that this is a very interdependent industry in the sense that you have the whole agrifood chain here, starting with the farming side and then going all the way to retail.

In looking at the industry, traditionally people have started at the farming end and then passed through and done their analysis of food processing and so forth. More and more the recognition is now that you have got to start the analysis at the consumer end, at the retail level and so on, at the food service level. The consumers either buy your products or they buy somebody else's. That is where the issues have recently arisen in terms of such things as the impact of the free trade agreement and the border shopping issue and so forth.

That is one thing that we want to illustrate by this diagram. The other thing is this is a very important industry to Ontario. In terms of value of shipments, it is Ontario's second-largest manufacturing industry after transportation equipment. In terms of employees, it is number two, if you include the beverage side.

The most important thing to recognize is that you cannot have a viable farming sector if you do not have a viable processing industry and the reverse. It is that interreaction between the processing and the farming side that is the key to the future of the industry.

In terms of recent trends that are impacting on this industry, the free trade agreement is probably the most significant. By the end of this year the GATT negotiations will have been completed, and those in turn are extremely important for the agrifood sector.

The free trade agreement has changed the rules of the game in the sense that, prior to the reduction of some of the trade barriers that is now occurring, the industry was really domestically oriented. That has been the history of it. Very little in terms of exports, perhaps 6% of the production, is exported. Now, however, with the reduction in the tariff and nontariff barriers, the exposure to competition, especially from the United States, will be much greater.

People in theory think that the situation may be something like the auto industry. But the auto industry has safeguards in the auto pact, which of course we do not have in other industries. This is one of the problems that we will be facing. What we are concerned about is that the investment in the industry, which has in past always been a very stable investment growth—our share of investment has been fairly stable relative

to other jurisdictions—will decline. It is in that context that we want to improve the competitiveness of this industry.

Besides looking at investment figures, we have also looked at, obviously, trade figures, exports minus imports, and the issue of jobs. Those are our three performance criteria in terms of determining how well we have been doing. But we cannot project those readily into the future because of the change in the environment.

As Mr Rowan indicated, we have done both industry analysis and type-of-firm analysis. Here is the analysis of the industry on a type-of-firm basis. The industry has about \$20 billion worth of shipments, if you have both food and beverages included, and about 1,000 firms in Ontario. Of those firms, 18 are the subsidiaries of foreign giant firms; those are the Nestlés, Unilevers and so on of the world.

If you look at those in the free trade world, for them the free trade agreement has only upside, because they have plants located on both sides of the border in North America. They have plants obviously elsewhere in the world. They can decide, therefore, where they are going to shift their production, where is the most favourable from a cost and other perspective, exchange rate and so on. It does not pose any problem for them as a firm. The problem arises simply in terms of how well we are positioned to obtain some of those plants and some of that investment.

The large Canadian-owned firms are in a somewhat similar position, because they too by now are operating on both sides of the border, or if they are not, they have the capability of doing that in terms of acquisitions, of assets and in terms of simply starting plants as well in the United States. For both the large Canadian and the giant foreign-owned firms, the decision is based on product lines, location, economics and so forth.

The most vulnerable types of firms that we have are the medium-size firms, because they generally have been used to operating in Canada, serving either the regional market or the Canadian market, and they, in this new world, will have to decide exactly what their strategy is going to be. In terms of their strategy, they have certain constraints that they are facing; namely, if they decide they have to be involved in the American market, it is the break-in to that market, which is huge, and the fact that they do not have strong brand names and all the rest of it that are barriers to them. The other barrier is simply the financial capability of acquiring assets on the other side of the border or expanding in Canada.

The smaller firms are not in as vulnerable a position as the medium-sized firms because they have become oriented towards particular products, niche products, or serve just the local market because of transportation regions, or are focused on ethnic products. So the smaller firms have a huge variety in terms of their performance—some of them are very profitable; others are not—but the free trade agreement per se does not make them very vulnerable.

In terms of the system that we have here, and earlier I mentioned the agrifood chain, in terms of the different components of that chain, one thing that is important to recognize is that government has basically organized the commodities that exist with the farming community, in terms of the marketing of farm communities, on two kinds of bases. One is the supply-managed commodities, which are in the dairy and poultry areas. That is basically chicken, turkey, eggs and industrial milk, the supply-managed commodities, and then there are the non-supply-managed commodities.

In the supply-managed, there is quantity and price regulation. Prices are normally set on a costs-of-production basis; the

quotas are allocated. That is the system that is in place. In the non-supply-managed, there is no price and quantity regulation. The market forces simply determine the prices, and in most cases those are international market forces.

The reason that you have had some organization at the farm level in terms of marketing boards of those two types, supply-managed and non-supply-managed, is that you have, of course, thousands of farmers facing fewer processors and, in turn, those fewer processors facing very few interprovincial buying groups. In a sense, the system we have in place has been put in place so that farmers have a countervailing power to the concentration that exists elsewhere in the system. That has resulted in basically a system which most people consider as being more or less equitable in terms of how it is worked out.

The problem, however, that it has created is that in the supply-managed commodities, the price level of those commodities is considerably above the price level in the United States. Yet on the processed food side now, in some processed areas, the tariff protection is disappearing. So this has put pressure on the supply-managed commodities area to bring down that price difference, and that has been a major focus of our attention in terms of trying to bring some resolution that will, on the one hand, give us price competitiveness and, on the other hand, not take away the safety net that exists for the farming community through supply management.

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Let me illustrate that in just a very particular product line—in this case, it is frozen chicken dinner—in terms of how that works in practice. Here is a comparison between Canada and the United States and how the cost components would compare. Clearly, since we are talking here about a chicken dinner, the major component is chicken in terms of value of the product, and there is a considerable price difference between Canada and the United States. Indeed, it is that component of cost where the price difference is largest.

There are other differences in terms of the other vegetables that are more minor. There are differences in packaging and there are differences in labour. The packaging differences, for example, will also disappear. As the tariff rates between Canada and the United States disappear, the packaging costs will tend to equalize. The same is true of some other inputs, but what will remain still is of course that difference on the raw product input.

You also have other aspects in terms of the price of the commodity that are important—transportation, distribution, and of course the most important at the present time, is the tariff protection of 17.5%, which is now about 14.5% because it has already gone down by two steps. So at the end of the day, when we did the calculation—this was done based on the survey—we were competitive in terms of frozen chicken dinners in Ontario vis-à-vis the United States.

However, this was done in 1987, and in the meantime what has happened is not only has the tariff declined but of course the change in the exchange rate, which has been damaging to the competitiveness of the Canadian industry. The impact of that, and it was referred to earlier by one of the members, can be seen by this comparison. In terms of the last two years, the impact of the exchange rate has been larger than the impact will be of the tariff reduction over the next 10 years. The industry has had to live then with these tariff reductions, but also this difference in the exchange rate, and it has reduced its competitiveness. That just illustrates for you how important the dif-

ferent factors are and, depending on the period, one factor or another is important.

In order to kind of summarize the situation in one graph, we have identified all the subsectors of the food processing and beverage industries on the vertical axis and then all the competitiveness factors on the horizontal axis. We have tried to set priorities in terms of the importance of all those factors for each subsector. This was by way of organizing our work in terms of knowing where we should focus our attention in terms of changes in policies and changes in programs that the government has. So behind each one of these boxes there is kind of a story in terms of what we ought to be doing, and that was the basis, really, of the recommendations we put forward.

In terms of the different subsectors of the food and beverage industry, of which there are 25, we sort of identified those where the industry is vulnerable immediately, those where it will be vulnerable over time as protection declines and those that are vulnerable if we do not get our grain pricing system sorted out, and then there are others which are not vulnerable to free trade. That is what is summarized here really on the vertical axis.

On the horizontal axis what we have identified is how important the raw material pricing is, as well as other issues, which you can see, in terms of packaging, labour, training, marketing and so forth.

As I said, this analysis led to our recommendations, which we organized under five different elements, the first one being assuring competitive input costs; the second, more global improvements in the investment climate; then the trade strategy recommendations, and finally education and training. Then there were issues related to the structure of government. Today to save time we will only focus on the first one, which in a sense is the most crucial and most difficult, but there are also important recommendations under the other headings.

Now as far as that issue of competitive agricultural inputs is concerned, raw products for the processing industry, the government has put in place structure for bringing about reforms in that area and that structure is illustrated in the graph. Basically, what it involves are changes to the Ontario Farm Products Marketing Commission, which is kind of the supervisory board for all the other marketing boards, so all the other marketing boards have a relationship to that supervisory board.

For each of the important commodities, the key commodities, what has been done is they are setting up working groups which would come up with the alternatives for reform and select which seem to be the most promising, the idea being that eventually those would be passed down to the marketing boards for implementation. That is the process and structure that has been put in place.

That is the process. Now I will give you an illustration of what that means in terms of substance, in terms of what might actually be done. The example that I have selected here in this case the chicken market and not only, broadly speaking, what alternatives for reform are available—that is on the horizontal kind of thing—but also the major actors in this game, how they perceive their current situation, and how they perceive what might happen to them, or how we have analysed what might happen to them over the short term and the long term if one or the other of the different kinds of options is selected.

Basically, what one can see from this is that there is no shortage of ideas of how to change the system. That certainly is clear. What is not clear is how to change it in order to leave everybody's self-interest intact in the process; also, how to

change the system in order to get finally the objectives that we want to achieve in terms of greater competitiveness.

What people have settled on in the interim while these changes on the free trade side are taking place etc basically are Band-Aid solutions for the time being, so if you go to our frozen chicken dinner example, and they are having trouble with competing, the way that problem has been solved is basically by making more input quota available to the processors. In other words, they are permitted to import from the United States, despite the fact that we have controls on that. That has allowed them to maintain their competitiveness. Now that is a short-term solution, but we are going to have to find a long-term solution to that problem, depending on what happens in terms of the negotiations in Geneva. What we have been doing is basically looking for those solutions over the long term and assessing them in terms of which might be the most appropriate.

As a bottom line then in terms of an agenda for Ontario, I think it has become clear as we have looked at this industry that we want to really follow two kinds of principles. One is the principle of greater market responsiveness in the pricing side, and the other, to have comparative advantage prevail in terms of production.

Now, what are some of the implications of that for the agrifood sector? I think one of the things that is clear in terms of those implications is that the marketing boards can and should remain in place. Sometimes you hear statements to the effect—and this happens more, obviously, from the processing side, etc—that we have a problem being competitive in agricultural products and marketing boards are to blame for it. That is a gross generalization and entirely misleading, because as I indicated earlier already, we have marketing boards—let's take an example like the white bean marketing board—that sell 80% of their production into the international market. Clearly the marketing board cannot be the problem in terms of the lack of competitiveness.

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On the other hand, it is equally true that there will have to be some changes on the supply management side if indeed we are not able to maintain the import controls in their present state. They have to become more market sensitive and more market responsive. As I indicated, there are some ideas that exist that may be able to do that.

Finally, a major problem that has arisen is that we have free trade now with the United States but we do not have free trade within Canada. This situation should obviously have been the other way around, but what it has led to is that we may have circumstances in which the products flow more easily north-south than they flow east-west.

In essence really, the way the system works at this time, we have nine dairy industries in Canada; we do not have one dairy industry. Newfoundland does not have one. The reason for that is that the allocation of quota is done on a provincial basis. Hence, the industry is built up around the local production of the commodity. In some way we are going to have to put greater flexibility in the system so that we have national quota as well as provincial quota.

There is some danger in that, as we have seen in things like beef processing, where because of economics Ontario has lost out in terms of some of those plants with their moves to Alberta, but that has to be accepted in terms of technological and locational changes that we have very little control over.

There is a downside to this as well as an upside, but at the end of the day it obviously is of benefit to the consumers and of benefit to us generally in terms of being able to compete in this now North American environment. Hopefully, with those kinds of proposals, the balkanization of the country can be somewhat reduced.

The other thing is that in our whole trade strategy—now with the United States and our trade policy with the United States—we have run into several difficulties on the agricultural side. One of the most outstanding in that regard is of course the countervail duties that have been levied against our hog and pork exports. That has just raised the general issue of the fact that notwithstanding the free trade agreement, the two countries have retained their own trade protection measures, their own contingency measures on countervail, on anti-dumping and on safeguards.

One would have to say that the prevailing American practices, legislation and so on, on countervail are more effective than our own and also they use them in a more effective way. We are going to have to combat that and the way I have described it here, to simplify or summarize it all, is that we are going to have to use a Team Canada approach towards dealing with that problem.

That is basically just a couple of areas in which we have come up with recommendations. I will not go into the others, but basically if you summarize them, what will this industry look like in the future? There are about three different alternatives. Basically, if we follow a defensive strategy and if that defensive strategy is kept viable in terms of import controls, then there will not be many changes in terms of the kind of industry we have as at present, but it does have the downside of the balkanization and it does have the downside that we will not be competitive if eventually changes occur in the international environment.

Our second, and this is our preferred option is to follow an offensive strategy on the assumption that we will have to face some reduced protection under the FTA and possibly under GATT and hence we will need to modify our supply management regimes to prepare for that, while developing safety nets which are not countervailable.

If we are faced with reduced protection and do not make any changes to the system, then we will certainly see an increase in plant closures and forgone investment in this industry, so a lot depends really on what happens internationally and then subsequently a lot also depends on how we react to that.

Mr Rowan: That is the conclusion of our presentation. We would be open to any questions the members may have.

Mr Reycraft: I wonder if I could get a little bit of explanation as to why western Canada is a lower cost location for beef processing, some explanation of why we have seen that shift from Ontario to Alberta.

Dr Baumann: One of the reasons for that has to do with the advent of boxed beef. It just simply means that it is more cost-effective to process the beef and then ship it, rather than shipping the feeder calves to eastern Canada and then subsequently putting them through the processing plant. That has been the major reason for that. There have also been other reasons. Obviously you have heard about support from the Alberta government for setting up beef processing plants, and that is another area on which some kind of understanding and some kind of decisions will have to be made, namely, how we sort out the whole subsidization issue, not only with the United States

but within our country; in other words, the industrial development rules of the game.

Mr Reycraft: Do you have any information on the extent of the provincial government's support to beef processors in Alberta?

Dr Baumann: No, I do not have those numbers here in terms of precisely what they provide.

Mr Reycraft: Is that not really a trade distorting kind of action?

Dr Baumann: Absolutely, but I should explain that I do not think they set any precedents there. In a sense this has been going on for a long time and all provinces have done it, so that has occurred throughout our history.

Mr Reycraft: But without that kind of subsidy, is it not reasonable to assume that our cattlemen could have been able to buy feeder cattle in the United States, for example, instead of Alberta, lowering their transportation costs and still remaining competitive and keeping the processing industry here?

Dr Baumann: I think some of that has happened, but I really would not want to judge, because I have not looked at all the numbers, whether that would have been enough to change the economics, given the other things that were happening as well. I would not want to make a judgement on that off the top of my head, but obviously the movement towards the west would have been less.

Mr Daigeler: I came in a little bit late. Perhaps you have answered the question already, but you have obviously done a lot of study, a lot of reflection, a lot of analysis already. Quite frankly, I am very impressed with the work you have done. By "you" I mean all the presenters and the whole secretariat. Where are you going to go from here? You seem to have identified the issues. What is your next step?

Mr Rowan: On the food processing industry we have made our recommendations to the government, and in part they are reflected in that process chart that was presented a few moments ago. You will notice, if you recall, one of the phrases on that chart was what is known as the hands-off approach, namely, changes to supply management rules and regulations and trying to get changed attitudes, getting more market-sensitive pricing on the part of marketing boards. That approach is going to be done through a restructured, reorganized Ontario Farm Products Marketing Commission.

I think the real question that is still out there is, what happens if change is not occurring in a timely manner, if the legislative authority that has been given to supply-managed marketing boards is not changed, and attitudes, a greater sensitivity towards the pricing of farm products does not occur in a

short period of time? Keep in mind we are not dealing with the 10 years of the free trade agreement. Granted, over that 10 years the tariff rates will come down to zero. If the tariff rate is 17.5%, for example, it will come down at 1.75% a year so that at the end of the 10 years it will be zero.

What we are trying to impress on people within government and elsewhere is that investment in food processing facilities, either new investment, new plants or upgrading of existing plants is going to be made on the basis of a food processing plant owner's view, perception, of the relative costs of doing business. If input costs, the raw material, if those prices are not going to start to come into line fairly soon, then investment decisions are going to be made to Ontario's detriment. In other words, these companies are going to invest elsewhere because the market signals they are receiving from other jurisdictions are so much more favourable.

I cannot answer in a very precise way, "Where do we go from here?" I think only time will tell whether the process that has been put in place will be successful. There is another approach to the hands-off approach; that is a hands-on approach. That is where a government says, "We have tried, through this restructured farm products marketing commission, bringing in a different set of interests on the commission and providing opportunities for dialogue, for understanding as to the consequences of continuing to be uncompetitive."

If that approach does not work, then the next decision, if there is still time, is, does the government then change the legislation, change the delegation that has been provided to marketing boards through legislation so the farming groups do not have total control of price and production? That is about as far as I can go in answering your question, because we are looking into the future and I do not think anybody has a handle on it.

The Chair: There are no other questions and it looks like we are about to get a division bell anyway, so it is probably time to wrap up. I want to thank you very much. I think it has been an extremely helpful presentation and very informative. We appreciate the time you took this morning.

Mr Rowan: Thank you for the invitation.

The Chair: To the members of the committee, we have no one scheduled for next week and we think we should probably have a steering committee meeting to firm up exactly what we want to do when the House rises, and get a little more specific than just talking in general terms about industrial strategies. Lisa Freedman will be in touch with the members of the steering committee on setting up a meeting for next week.

If there is no other business to come before the chair, we stand adjourned.

The committee adjourned at 1154.

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Le jeudi 6 décembre 1990

Standing committee on
finance and economic affairs

Organization

Comité permanent des affaires
économiques et financières

Organisation



Chair: Jim Wiseman
Clerk: Todd Decker

Président : Jim Wiseman
Greffier : Todd Decker

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 6 December 1990

The committee met at 1545 in committee room 2.

ORGANIZATION

Clerk of the Committee: Honourable members, it is my duty to call upon you to elect one of your own as Chair of the committee. Are there any nominations for the position?

Mrs Sullivan: I would like to move that Mr Wiseman be elected as Chair of the standing committee on finance and economic affairs.

Clerk of the Committee: Mrs Sullivan has nominated Mr Wiseman. Are there any further nominations? Seeing none, I will declare nominations closed and Mr Wiseman elected Chair of the committee.

The Chair: I would like to thank Mrs Sullivan for nominating me. I hope this augurs well for the congeniality that we will share over the next few months.

It is my pleasure now to ask for nominations to elect the Vice-Chair.

Mr Stockwell: I will nominate Mr Hansen for Vice-Chair.

The Chair: Are there any other nominations? Seeing none, I declare nominations closed and Mr Hansen the Vice-Chair.

Mr Hansen: I would like to thank my nominator Chris Stockwell.

The Chair: At this point, we have to create a subcommittee on committee business, a steering committee. Should we take nominations now for the subcommittee?

Mr Phillips: I nominate Mr Kwinter.

The Chair: And from the Conservatives?

Mr Stockwell: I nominate Mr Sterling.

The Chair: Is this what happens when you do not show up, you get all the jobs? Is that agreeable? That is wonderful.

I would like to move on to the fourth item on the agenda, which is the committee business and future agenda. At this time I would like to indicate that I have had conversations with the Treasurer with reference to comments made in the House concerning a pre-budget consultation and he has indicated to me that he would like to have the committee participate in pre-budgetary consultation. What this means is that we must move very quickly ahead with organizing, hearing witnesses and so on.

To that end, with the agreement of the committee, I would like to extend an invitation to the Treasurer to come to speak to us next Thursday afternoon at 3:30. If there is no objection to that, I would like to extend that invitation. Seeing none, then I will ask Mr Decker to do that. Thank you.

Is there other business?

Under other business, I would like to thank Anne Anderson for putting together a little brief that I hope everybody received on the standing committee on finance and economic affairs. At this time I would like to give her just a few moments to explain her role.

Ms Anderson: Thank you. My name is Anne Anderson and I have been working with this committee for about three years. I would like to introduce to you my colleague David Rampersad, who has been here for about one year, I think.

For the new members—this may be redundant for the older members—I just want to explain how research has helped the committee in the past, or I hope helped. I thought the easiest way to do that was perhaps to take you through hearings and show you ways in which research has been used.

As well as having hearings or bills that are referred by the House, the committee can choose issues that it wants to hold hearings on and often research can help in defining the issues and defining some of the pros and cons to give the foundation for debate among the committee members themselves.

We can also help suggest witnesses. For example, last year in the pre-budget consultation the committee decided it would like to hear from economic forecasters, so research suggested names of experts in that field for the committee to choose from. We can also provide background notes and briefings so that you all start from a common base of knowledge during the hearings. We answer any questions and provide analysis of things that come up during the hearings. For example, during hearings on the Employers Health Tax, there were questions about a similar tax in Manitoba, so we were asked to analyse the impact that tax had and give that to the committee.

We can also prepare a list of all the recommendations that come from witnesses and we help with the writing of the report, the drafting of the report, for the committee to work on when it has got through hearings. Procedurally, I think that generally requests for work done for the committee are either made during the hearings or done through the Chair. Everything we do is then made available to all committee members in a nonpartisan way.

Clerk of the Committee: I could just briefly describe my role as clerk of the committee. My primary responsibility is to advise the Chair and members of the committee on parliamentary procedure and traditions and practices that are used here. I also am the chief administrative officer for the committee, so together with Anne and the researchers, I will be organizing the committee's hearings, inviting the witnesses, setting the hearings, arranging for the meeting room, getting together all of the papers the committee uses. Should the committee decide to travel at any point during its mandate, I will make all of the travel

and accommodation arrangements and arrange the witnesses and the meetings on the other end of our journey. That is essentially my role.

The Chair: Are there any questions from members?

Mr Stockwell: Does any staff from the ministry report here at all or are there any questions that we can ask them, or do you have to ask them to come? They do not come here as a rule.

Clerk of the Committee: Once the committee gets going and once it is fixed into a set of hearings on a specific subject, ministry staff from either the Treasury or whatever ministry is involved will tend to monitor the hearings.

Mr Stockwell: Are they on the floor? Can we ask them questions?

Clerk of the Committee: Yes, ministry staff will come any time we request, and if they know the committee wants them to be there, we can usually make arrangements for them to be here to act as a resource for the committee.

1550

The Chair: Perhaps we could make available to Mr Stockwell this document. Have you seen this?

Mr Stockwell: Yes, I have seen it, but I have not read it.

The Chair: Are there any other questions?

Mr Phillips: Just in terms of the next steps, Mr Chairman, a week today the Treasurer will be here from 3:30 till the committee chooses, presumably giving us background on both his economic forecast and his preliminary thinking on the budget. Is that what we should expect?

The Chair: I have not discussed where he wants us to go in terms of our pre-budgetary consultations. What I am asking, of course with the committee, is that he would give us some kind of instructions at that point as to where he would want us to go in terms of this pre-budgetary consultation.

Mr Phillips: Just to follow up a little bit, when will the subcommittee on business meet? Is that planned some time before we meet next week?

The Chair: If that is your wish, yes.

Mr Phillips: I am trying to get in my own mind just how we should anticipate the next few months unfolding. If that committee meets, it then reports back here, presumably.

The Chair: To give you a response to that, I would still have to determine in my own mind exactly how the next few months are going to unfold, as this is very much a learning experience for me. So when I have a better grasp of that—through the subcommittee and through consultation with the Treasurer—and I have an understanding of where he wants us to go, how much time it is going to take—through consultation with the clerk—then I can probably respond to that question a little more accurately than I can right now.

Mr Phillips: I gather—and then I will be quiet, but this is really a committee of the Legislature, as opposed to the Treasurer's committee.

The Chair: That is right.

Mr Phillips: So we probably have to be a little bit careful about necessarily—we are here as a legislative committee, as opposed to, say, the Treasurer's committee, and therefore I must caution us that he may provide suggestions on what might be helpful, but I think we probably would want to set our own agenda.

Mr Sutherland: Is that not an issue that the steering committee would examine in terms of—

The Chair: Yes, the steering committee would examine that.

Mr Sutherland: —providing some direction back to this committee in terms of where the agenda will be going?

The Chair: The clerk can clarify this for me. If we get direction from the House, then that supersedes what this committee may choose outside of that, if I understand that correctly.

Clerk of the Committee: A specific order of reference from the House certainly defines what the committee will do and, often, when it would do it. During the interval between sessions, this committee, together with all of the other committees, can only meet in accordance with the schedule that is agreed to among the House leaders. So we would be authorized to meet during certain periods of time and to study a certain subject matter or a certain piece of legislation. But the committee does have the ability, as Anne said, to pick and choose from among a number of topics that fall within the jurisdiction of the ministries that report to this committee, the Ministry of Financial Institutions and the Treasury and Ministry of Economics being the two main ones.

Mr Kwinter: Just to clarify, what normally happens is that this committee meets and structures its business independent of the House, except that a bill, whatever bill it is, could come forward, let's say Bill 4, and a decision could be made whether it should go to the standing committee on social development or to the standing committee on finance and economic affairs. But that is determined by the House leaders as to where they want it to go. Once they direct it, then you have no choice but to receive it and to start organizing yourself to hear it. Again, the whips would meet and decide that it has precedence over something that the committee may be dealing with. The committee picks things that it thinks might be of interest and might be relevant, but this is a bill that the government and the House may have some priority to get through.

The Chair: If I understand correctly, that would also include the pre-budgetary consultation. If the whips decide that is what we are to do, then that is what we do.

Mr Kwinter: We will do that in the absence of anything else that was coming forward.

1600

Mrs Sullivan: I wanted to really underline to a certain extent the remarks of Mr Phillips. I think we should be very clear that, as a standing committee of the Legislature, where the Treasurer wants us to go is not necessarily where we want to go. Our agenda is what is set by us

unless there is a clear reference on a particular piece of legislation or other mandate.

I think it might be useful, before the subcommittee meets and before the next meeting, if each of the parties who are represented here perhaps brought some very specific ideas relating to topics that the committee may want to look at. It may be broad-ranging, as for instance job creation, or it may be the influence of the GATT negotiations or whatever on the Ontario economy or other matters relating to financial and economic affairs, in addition to the pre-budget hearings. The pre-budget hearings have been traditional since about 1985 or 1986 when the matter was first referred to this committee.

There is a lot of organizational work that has to be done. I think it is incumbent upon the subcommittee to make recommendations relating to the period of time of public hearings that the committee would like to recommend to the entire committee, and the nature of and format for those hearings. It would be useful if we could take some time to consider those after the Treasurer's meeting with us next week.

Additionally, I think it would also be useful to know, and I do not know if the clerk already has heard, if the grey book will be available with the Treasurer. We have seen an economic report from the Treasurer at this point. Without that grey book's being available, I think it is difficult to plan the entire structure of our hearing program.

Clerk of the Committee: I am not aware of the timetable for the grey book. I know that we were discussing it earlier. The Treasurer did table a document together with his statement yesterday that contained much of the information one would normally find in the grey book. Whether or not the timetable for the grey book would get here in time for consideration before winter adjournment, I am not sure. I will ask him that when I am inviting the Treasurer.

The Chair: Are there any other questions? Other business? Perhaps some timetable for the committee's budget? Could we have a couple of comments about that?

Clerk of the Committee: Sure. Each year, all of the committees prepare and approve a budget, which is then

sent to the Board of Internal Economy for its consideration and approval. Once I have a clear idea from the committee as to what sort of long-term goals the committee has between now and 31 March, when the budget will expire, I could prepare a budget. If we know, for instance, that we are going to be doing three weeks of pre-budget consultations during the break, I can estimate how much money will be needed in the budget and we could probably consider that in a week or so.

Mr Sterling: I was just thinking, because of the impact of the Mexico-US free trade agreement, that in the first week of February, we might take a trip to Acapulco to experience what is happening down there with regard to that agreement.

The Chair: Given that the Chair is supposed to remain impartial on questions such as that, I will have to bite my tongue on that one.

Mr Sutherland: Southern California as well. Talk to them about migration there and things.

The Chair: I can see that fiscal responsibility is not high on the priorities. If there are no other questions on the order of business, shall I, at the will of the committee, declare—

Mr Sterling: I have sat on this committee before but as a—did you go through what they have done in the past? I am sorry. I will speak to you after.

The Chair: You have been nominated by your party to be on the steering committee.

Mr Stockwell: I had to lobby hard for you. When do we meet again?

The Chair: Are we going too fast? At the will of the committee, I will declare this meeting adjourned until—

Mr Kwinter: I will assume that we are not meeting next Thursday morning, just Thursday afternoon.

The Chair: Thursday afternoon, 1530.

Mrs Sullivan: Will the subcommittee meet before our next meeting?

The Chair: I will arrange a subcommittee meeting; that is Mr Kwinter, Mr Hansen, Mr Sterling and myself.

The committee adjourned at 1605.

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finance and economic affairs**

Pre-budget consultation
Organization

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économiques et financières**

Consultations prébudgétaires
Organisation



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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 13 December 1990

The committee met at 1532 in committee room 2.

PRE-BUDGET CONSULTATION

The Chair: Since we have the Treasurer here and we have him for a limited amount of time, I would like to call the meeting to order so that we can begin. We have the Treasurer for how long, until we let him go? We will chain him to the chair.

Hon Mr Laughren: No, it is okay. It is just that there is a corporate tax bill in the House this afternoon and I promised I would be back for part of that debate. I am certainly here until 4 pm. I do not know when debate on that other bill is going to start. I will keep an eye on that.

The Chair: Then I would like to call this meeting to order since there are representatives from all the parties. It is a pleasure to have the Treasurer of Ontario here this afternoon to speak to us. Without further ado I will turn it over to the Treasurer for his remarks.

Hon Mr Laughren: It is more of a pleasure than you might imagine for me to be here before a standing committee. Not that you are interested in my history, but I can tell you I am a big fan of the committee system around here. As Chair of one of the standing committees for some time, I appreciate the work that committees do. I attach some importance to your work. I am not just saying that as a government member; I always did feel that way.

I have a particular interest in this standing committee because I felt that in previous years—I do not think it was a partisan matter—this standing committee did not play the role that I think it should play in economic matters. So I hope this will work in a different way. That is one reason I am happy that Dave Christopherson, my parliamentary assistant, is on the committee. I will co-operate with the committee as much as I can in the months to come. I want to say a bit about that a little later if I could.

I thought that perhaps I would recap a little bit about where we are at in Ontario, not that there is anything new in the numbers. I think most members understand that we indeed came into a recession in the first half of 1990, that we are well into it now and that it is going to last well into 1991, at least four quarters of recession. That really has hurt us very substantially both in revenues, primarily corporate income tax and retail sales tax, almost \$1 billion lower, between those two, than we had anticipated.

By the time all the numbers are in on the welfare case load, it looks like it will be about \$500 million higher than was budgeted. Those were honest budget numbers, in my opinion, because they had no idea, and there would be no reason to disguise numbers like those. So you combine the falling revenues plus the skyrocketing costs on welfare and the utilization of the OHIP system as well and you have a problem. That is why we are into the \$2.5 billion deficit this year, and it will most certainly be higher next year. I

do not know what the number will be, but it will not stay at \$2.5 billion next year. We are pretty sure of that.

In response to that we have done a couple of things. One, of course, is the \$700-million package, of which about \$40 million will be spent this year, we think. It will be more if we can get it spent, but it is hard to get programs like that up and running instantaneously, because the year end is the end of March, and then the balance, we hope, will be by the end of fiscal year 1991-92. That is our hope because we do not want to delay. We want it spent, giving the economy a boost when we think it needs it most, without it being inflationary and lasting beyond the recession. We do not want it to be there later. At the same time, we think it will provide some infrastructure improvements in the province that are overdue.

We really think we are doing the right thing. It is going to add about 20,000 jobs. If you combine the anti-inflationary package, which is about 14,000 person-year jobs—be careful how you say those words these days with a couple of the tax moves that we have taken, which we think will be another 6,000, that is about 20,000 jobs. Without that there would be actual negative job growth, if that is the right term, or there would be job decline, employment decline, next year.

We think this is going to hold it even and that is about it. It is not as though we think it is going to solve all our problems, but on the other hand I really believe that to do nothing would not have been appropriate. Most of our critics would not have been happy if we had done nothing. There might have been some, but I think most people felt we had an obligation to do something to try to cope with the recession. That is what we have done.

We know that the high interest rates and the high dollar are taking their toll. We know that the restructuring under the free trade agreement has taken its toll as well. Global competition is intensifying. That is also having an effect on unemployment. We know that there are a combination of factors that are making it more difficult, and the recession just seems to be compounding that, so we got clobbered this year.

On the other hand, when the Premier and I went to New York to meet with the people who sell our bonds, most observers expressed virtually no concern about our spending, although they will keep an eye on us, there is no question about that. If we let it get out of control, they will be the first to reduce our bond rating. The Ontario economy is not in desperate straits. It is not as bad as it was 10 years ago in 1981-82. The recession is not as deep and we do not think it is going to last as long.

At the same time it is not pleasant trying to cope with falling revenues and rising expenditures at a time when we have been through a process in which a great deal of promises and commitments were made on expenditures.

That is not the opposition's problem; that is ours and we have to deal with that as best we can. I think most people understand that we cannot do everything as fast as we would have liked to have done, or even as fast as we said we would during the campaign. I also think you would appreciate the fact that during the campaign we did not know we were going into this recession. We did not know we were going to have a deficit. I think people understand that and will be patient. I am not talking about the give and take in question period. That is completely legitimate and fair. I am not complaining about that at all. That is to be expected and I have no problem with that at all. But I just think out there in the public people understand that we cannot do everything at once.

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On the budgetary process, I wonder if I could speak a minute about that. There is no grand plan in place here, but I really hope that this committee could help us in the budget-making process. I do not know how we can change much for this year, because I think you would appreciate that for the budget we hope to bring down in April, there is a lot of institutionalized consultation already in place. Historically, the Treasurer met with a large number of groups. That seems to be something that is expected and it is very hard to change it right off.

I would hope that as time goes by this committee could play a more important role in that process and do part of that with us. It should not just be the Treasurer sitting in the boardroom listening to these groups. It should be a broader representation of the Legislature. I hope very much that would be able to happen this year.

Mr Chairman, you will set your own agenda, not me or anybody else. It is too fine and honourable a tradition. I remember chafing under the bit when people tried to set the agenda for us when I chaired a committee, so I would not presume to do anything like that, but I hope that we can share with you the people who want to consult. We can see how many of them will come here and make their presentations to you, if that is what you decide you would like to do.

Again, it is up to you, but I hope we can send that list to you. I would appreciate knowing if you come to that determination. If you do, then I do not want to send these people off on a wild goose chase. For example, if the Canadian Bankers' Association wanted to meet with me, I would say, "Well, look, why not meet with the standing committee and I'll come to the standing committee and be part of the process?" But I do not want to do that if, when the letter comes here, the committee says: "Not on your life. We've got other things we want to do." That is fair as long as we know ahead of time that we are not sending people off to see you when you are not going to see them. I would just appreciate knowing that.

I am not saying that I will come every time if you do that, when you meet with somebody, but that when it is possible I would do that. I think that is a better process. I think it involves more members of the Legislature, including the opposition parties. I do not think it should all be contained over there in the Treasury boardroom.

Another thing we hope to do is to open up the process in terms of budgeting beyond one year. I would like to see multi-year budgeting. That would be, I think, a more meaningful role for the standing committee to play. But once again, that takes time to change. It is almost like a culture that is there now in Treasury. It would be nice to start that as soon as we can. It is very tough to change anything that has become so institutionalized, this year, for this budget, but I hope that you as a committee will talk about that among yourselves and see what your ideas are.

One proposal I would make is that we co-operate on the consultative process leading up to the budget. It has to be done fairly early, because otherwise it is a sham. There is no sense meeting with a group in February and March, when you are writing the budget speech and doing your tax changes. That is a farce and people will see through it, and so they should. If you are going to take part in that process, it would be better if it was done early rather than late so that it is a meaningful process, and then you can, I hope, feed back to us in Treasury the results of the process you have engaged in with these groups or lobbies or whatever you want to call them. So I hope that you will think about that.

The other possibility, and you will have to decide this, is to what extent you wish to undertake specific studies or examinations or travels in the province or whatever on specific issues. I have had members from different parties ask me about issues such as the border shopping issue, gas prices in northern and southern Ontario, the impact of the GST on the Ontario economy, the impact of high interest rates on the Ontario economy; some provincial, some federal mix of things. You will decide that, not me. I hope you will talk about that and let me know, so that we can help you in any way we can.

There is only one thing I would say and it is, I hope, friendly advice. It is that you not engage in wild goose chases that cannot lead anywhere. But you will decide that, not me.

Anyway, that was really all I wanted to say. If there any questions you have I would be quite happy to try to answer them.

Mr Kwinter: First of all, I want to congratulate you on your elevation to the position of Treasurer. I also want to commend you for what I think has been a very fair and evenhanded approach to dealing with the deficit. I was heartened by your remarks, saying that you were not aware of the depth of this recession. As I say, I have been quite heartened by the fact that you have not tried to play politics with this and tried to attribute it to anybody, because I think everybody understands this is something the people in your ministry did not anticipate either, or we would have had a budget that reflected it.

Having said that, I would be curious to know one thing. Some of the comments you have made in the past are that running a deficit does not really scare you too much. Do you have any kind of ballpark figure as to what number would start to scare you?

Hon Mr Laughren: Two point five scares me, which is the one we are into right now. I really do not know what

number would scare me. I do not know whether you were in the room; I think you were at the beginning, yes. We know it is going to be higher next year.

Mr Kwinter: Yes.

Hon Mr Laughren: But it is not going to stay at \$2.5 billion. There are some built-in costs that are going up; they are built into the system. It does not look like revenues are going to take much of jump next year either; it will be very small, as a matter of fact. So we know it is going to go higher.

First of all, I hope I am too politically wise to commit myself to a deficit number that would strike terror in my heart, only to surpass that number in two years or whatever and end up eating the words. Quite frankly, it would depend too on the depth of the recession. If we are pulling out of the recession next year, it is different than if we are still in it and sinking deeper, which we do not think we will be, I hasten to add. Then, of course, a bigger deficit would be something most of us could live with more readily, I think. I am not trying to be evasive, I just do not know the number.

1550

Mr Sutherland: I was just wondering if you could elaborate on the time line. You said you were anticipating bringing the budget in during April, and just for purposes of this committee meeting with different groups you made the comment that you do not want to meet with them while you are writing the budget. Perhaps you could elaborate a little more on the time-line process that you and the Treasury are looking at so that we know what time lines we have to work with in terms of hearing presentations from different groups.

Hon Mr Laughren: You will appreciate the fact that I have not been through this exercise myself, but in the new year we start looking right away at revenues and expenditures. Once the transfer payments announcement is out of the way, which is the last week in January, my understanding is that is when Treasury really bears down and gets into—not writing the budget; I probably should not have used that phrase—determining the major components of the budget, revenues, expenditures, tax changes that we are going to make. Of course, overlaid on top of all this is the Fair Tax Commission and what it is going to recommend.

Perhaps this is a good time to tell you that I think there is going to be a delay in the Fair Tax Commission too, because we were proceeding to line up commissioners to serve on the Fair Tax Commission—I can plead as guilty as you want me to plead here—without thinking of the appointments process. I mean, technically we still could. I believe we still can because it would not normally be what they call order-in-council or cabinet appointments—they are Treasury appointments—and we would not need to go through that process of the committee.

On the other hand, I think Mr Harris put it quite appropriately yesterday when he said it is an important commission or committee, and why would we not subject that group to the same thing? I think that is a fair argument. I have no problem with it at all. But that does slow the

process down, even up to a couple of months I gather, so that is a factor.

I still hope we will be able to go ahead and make some tax changes in the budget. That is the long answer to your question, but it means that in one way it is not a big deal in a sense that, so what? We think it is going to take about three years for the Fair Tax Commission to complete the study anyway, so if it is two months later than we planned on starting, I do not think that is the end of the world. There was not enough time for them to do a lot of things for this budget anyway.

I think we will go ahead with some tax changes—I hope, anyway—on this budget. I have not made any determination about what they should be. Therefore, I think if you were to do your consultation—I think that was the thrust of your question—it would be better if it was in the first six weeks after 1 January rather than the second six weeks after 1 January.

Mr Phillips: I appreciate the chance to chat with the Treasurer. On this year's numbers, just so I have some idea of how you think we will finally end up, because that is the basis we have to be thinking about, whatever contribution we will make for next year—

Hon Mr Laughren: Is that 1990-91?

Mr Phillips: Yes, the one we are in this year. What is your estimate of expenditures for this year? What will we spend this year in the province?

Hon Mr Laughren: Let me think what the numbers are now. I believe it is about \$46 billion. I could be out on my numbers here. I have not actually looked at them that way, but roughly \$44 billion in revenue and \$46 billion in expenditures, in that neighbourhood. I could be out.

Mr Phillips: Are those the numbers? I get a sense that the \$2.5 billion is fixed but the other ones flip around a little bit.

Hon Mr Laughren: These are better numbers. Our revenue is \$43.6 billion and expenditures \$46.1 billion. I am out a little bit.

Mr Phillips: Again, just help me a little bit on this. I am sorry to be on this because I think we want to get on to broader stuff later on, but there are a couple of areas on the expenditures side: the SkyDome and the UTDC, I guess, they are in that \$46.1 billion, at some number.

Hon Mr Laughren: Yes.

Mr Phillips: That is \$400 million for UTDC and—

Hon Mr Laughren: Be careful on these numbers here. I think you will appreciate this. The UTDC \$400 million is being obliterated. That will be paid off. I do not know whether all the bookwork has been done, but it is going to be done like dinner. As we talk, negotiations on the SkyDome are going on. We have had one meeting and I think there is another one shortly.

There are other numbers, though, that went into the whole deficit number and that included things like negotiations with the doctors. That was why we really did not want to get terribly specific on some numbers, because it would say to the doctors, "This is how much we're setting aside in anticipation of our settlement with you." We think

that would be a foolish negotiation, so we really did try to—well, “disguise” is not the right word. We did not want people to be able to break down the numbers, take everything else out and be left with only the doctors and say, “Eureka, that’s the number they are prepared to pay the doctors’ retroactive payments.” That is why. It was not for any other reason.

Hon Mr Laughren: On the SkyDome, I think it is common knowledge that the debt on the SkyDome is over \$300 million.

Mr Phillips: I think so, because in your speech—

Hon Mr Laughren: I think that is quite common knowledge.

Mr Phillips: I am just trying to get an idea of how we might end up the year. If the revenues go up, the deficit drops.

Hon Mr Laughren: If the revenues go up—oh, yes.

Mr Phillips: Over your \$43.6 billion.

Hon Mr Laughren: That is correct. To be fair, before you finish your question, let me say this: The numbers are moving around a bit for a couple of reasons. First, the welfare costs continue to rise beyond what anybody anticipated. Even since we became the government on 1 October, the numbers have gone up substantially, plus there are more moneys coming in from the provincial income tax. As you might know, when we put on our tax forms our share of 53% of federal tax payable, because it takes a long time for a lot of tax forms to go through the system, I gather, the federal government gives us money every year and then as the year goes by and the next year goes by, it is readjusting the numbers as it processes late forms and so forth.

It is not unusual for adjustments to be made at least a year late. Right now the 1989 tax year moneys are being adjusted from the feds. Those are up substantially. I do not have a final number. I think that is either the end of this month or the end of January. I cannot remember in which month those numbers are basically finalized. I think it is in the new year.

We think and we hope—our fingers are crossed—that this will allow us to stay within the \$2.5 billion because of the increased income tax moneys coming from Ottawa, compensating for the increased welfare load. It is a bit simplistic, but that is basically what it is.

Mr Phillips: The reason for my question, of course, is that I know you had to make an estimate on revenue very early on and I said last night in the House—you happened to be out—that if you were betting, I am not sure but that the revenue might be closer to what the previous revenue estimates were than the one you made on 11 October. I just wonder what your driving number is, whether it is the \$2.5 billion deficit, or is it that you anticipate expenditures of \$46.1 billion of revenue come in higher than the deficit drops, or should we expect the deficit, come heck or high water, to be \$2.5 billion?

Hon Mr Laughren: It is a hard question to answer. We really think we can hold on the \$2.5 billion. We really think that because of that strange combination of revenues

from the federal government and our expenditures going up.

Mr Phillips: Okay. Just on future things, it would be helpful for the committee, at least I think, at some stage to have your officials kind of scope out for us sort of the overview for the years ahead. You have mentioned your estimate that the number of jobs in the province will, in your judgement, stay about the same next year as this year. If the labour market grows by 75,000 it means unemployment goes up by a point and a half or something like that, which I think are the numbers I remember.

I would find helpful just kind of the global assumptions that Treasury makes in terms of the economy, job creation, the kind of environment you think we will face. As a suggestion, I would not mind having that sooner rather than later; maybe today, I do not know.

1600

Hon Mr Laughren: I do not think that would be difficult to arrange. I am not sure what you would get that is different than was contained in the economic statement that was made a couple of weeks ago, but if it would be helpful to the committee, it would not be that difficult to arrange.

The Chair: Mr Phillips, on the agenda is a list of members from the ministry, and these people are here. You might be able to grill them a little bit after Mr Laughren is finished.

Mr Phillips: Could I ask one last question? In your statement you mention that you may be looking at a new way of dealing with or reporting capital.

Hon Mr Laughren: Yes, that is correct.

Mr Phillips: It seemed quite interesting to me.

Hon Mr Laughren: I did not even realize that Bob Christie and Bryan Davies from Treasury were here—Bryan Davies is the deputy and Bob Christie is the assistant deputy minister—when I was giving those previous answers.

Mr Phillips: Whatever you said is right, though.

Hon Mr Laughren: No, not with these guys. I had better be more careful of my answers.

I think most other jurisdictions separate capital from operating; Alberta does and I think BC and Saskatchewan. US states separate the capital fund from operating because they believe that an investment as capital is different from the ongoing operating expenses of running a government and delivering the programs, that the capital projects are an investment in the future and they should not be lumped together with operating because they are different animals, and that even fiscal conservatives could justify a deficit on capital, when they find it harder to justify a deficit on operating. I think that is fair comment, without trying to put words in their mouths. There are arguments to be made that it gives you a more accurate picture of how you are running your government if you separate capital from operating, so we are looking very seriously at how you do it.

I hasten to add that if you look at the budget papers for the last year or two at least, there is a breakdown

there, except that it is a consolidated—for example, the \$2.5 billion deficit this year includes capital, and capital expenditure this year is around \$3.1 billion, I think, for 1990-91. If you took that capital out of the numbers, we would have an operating surplus.

I hasten to add that this is not any attempt to pretend we do not have a deficit, and that would have to be made very clear if we do that, but it is a fact that if you took capital and separated it from 1990-91 numbers, we would have an operating surplus of, I think, around \$600 million, if you do the arithmetic.

Mr Phillips: I just have a supplementary.

The Chair: I am writing down the order. I have Mr Sterling and Mr Ward.

Mr B. Ward: You can take me off the list.

The Chair: Mrs Sullivan would be after Mr Sterling, and then Mr Kwinter.

Mr Sterling: There are, I guess, two or three things that I would like to get some idea of. One of the concerns I have had as I have seen the governments come and go is the immediate want of a new government to change the style of books; so it is very confusing to the public when the budget comes out as to what is really happening.

I think that the Provincial Auditor in his most recent report criticized the preflowing of funds from one year into the next. Would you be willing to sit down with perhaps this committee and the Provincial Auditor and say, "We are going to keep books this way," and allow the committee to take advice from the Provincial Auditor whether or not that method of accounting was fair in terms of accounting to the public of Ontario?

Hon Mr Laughren: You mean to make a commitment not to do any more preflows? Is that what you mean?

Mr Sterling: I am not talking about the preflows only. You mentioned some things here today. For instance, you hope to keep the deficit down to \$2.5 billion on the basis that you are going to get an injection of funds from the federal government, which may not just be the filing of forms, but it probably relates to people who are paying their taxes late as well. Whether or not that is legitimately claimed as a source of revenue in this year, there may be an argument on that part.

You mentioned that this past year there was something like \$3 billion-plus spent on capital, but on the other hand you do not mention that there is no negative part on the side of the books as to what are assets, as they are in depreciation. So you can claim all those kinds of things.

I guess what I am concerned about is that over the number of years that I have been here, I think the Treasurer basically gets away with murder, because whatever he says on budget day, nobody goes back and says, "Yes, but there was a preflow of \$300 million or \$400 million which happened over the last three or four years." We immediately recognize that. We have tried to cry about it, but the press did not understand what we were talking about.

What I would really like is a commitment that the books are kept in some constant fashion which has some kind of independence for somebody outside to say, "This

is a fair way to do it." As long as it is costed from one year to the other, you can really in fact compare what governments are doing.

Hon Mr Laughren: My initial reaction is sure, I do not have any problem with that. I do not pretend to be the resident expert either on what is good accounting and what is not. I gather that the Provincial Auditor did not accept the preflows as a good accounting practice. He was not suggesting anything else in his comments. As a matter of fact, he was—not ambivalent; that is not the right word. What he said was that the Treasury should consider. He did not say that this is wrong, that we should change; he said we should consider it. I think there is no question that the auditor does not like the concept of preflows. There is no question about that. We will keep that in mind.

Mr Sterling: The second question related to what can this committee usefully do in the next little while? Quite frankly, I am not interested in spending money and time, because it does cost money to keep these committees going during the break between legislative sessions. What would you envisage that this committee could do which would be of use to you in terms of advice and direction?

Hon Mr Laughren: This may sound a bit strange, but if we did not have the Fair Tax Commission already struck, I could see the committee providing advice on something like that. It would not be fair to this committee to be asking you to spin your wheels while you have them churning away out there with experts and support staff and all that trying to help us on the fair tax stuff.

If I take you literally in your question of how this committee can help me—I think this is what you said; "How can this committee help you?"—it would be immediately in the consultative process, leading into the budget, before the budget in the next little while, and coming back with having heard the presentations from the groups that would come before the committee, if that is what you decided to do, listening to them and making recommendations back to Treasury on that process.

Mr Sterling: Looking at the past list of witnesses that have been before this committee, there have been two kinds of witnesses.

Hon Mr Laughren: Some duplication too, I understand.

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Mr Sterling: Yes. I am not anxious to duplicate if somebody has made the pitch to you. Probably it is better than making a pitch to us, because I think your ear will count more, in the final analysis, than ours.

There are two kinds of pitches you normally hear in this committee. One is an economist or somebody looking at a more global picture about how you approach your overall budget, whether you put more money into resource areas or you shore up the education system or whatever the general approaches might be. On the other hand, we get requests from groups very much self-interested in fattening their share of the provincial dollar. Is there in fact any real use in us listening to the latter group?

Hon Mr Laughren: As I say, I have not been through this process before, but groups do not just come to the Treasury or the committee for a bigger share, do they? Are they not more public-spirited than that? Are they not interested in making the system better in Ontario and having a more balanced tax system? I do not believe the groups out there are motivated in the way you imply they are in your question, Mr Sterling.

Mr Sterling: I wish Hansard could take pictures as well as record words, Mr Treasurer.

The last thing I wanted to talk briefly about is that because we are going through a very critical period in the history of this country and the ties between the various parts of Canada have been economic as well as social, would not a more important function of this committee be to try to make some kind of recommendations to you about how you could make those bonds stronger at this time rather than weaker?

Hon Mr Laughren: It would be hard to say no to that.

Mr Sterling: I thought so.

Hon Mr Laughren: Keep in mind, though, that as we speak the Premier is ruminating on some kind of process vis-à-vis strengthening the consultation as well, so I would not think the committee would want to duplicate what somebody else might be doing. That is the only problem I would have with that.

Mr Sterling: I guess the concern arises from the fact that there have been companies, for instance, that have moved to the United States, to northern New York state, because they could do business more easily from there into the province of Quebec than they could from the province of Ontario. I can actually give you an example of that. If there are a great number of companies where that is occurring, I think it is important for the government to recognize what is happening between the competing jurisdictions that surround us. If we are going to take some kind of leadership role in strengthening the bonds across our country, then that should be reflected in how you shape your budget document.

Hon Mr Laughren: I was just trying to see if I had the list here. When the Fair Tax Commission gets up and rolling, I think we had tax competitiveness as one of the things we would like to have it look at, the whole competitiveness question, because that is quite a serious matter, I agree. But once again, we do not want to encourage the committee to do something that would be duplicated.

Mr Sterling: I just ask you to bear with me for a moment. For instance, I do not know whether your commission is going to look at what happens in the state of New York, for example. In terms of the revenues that the state of New York gathers from its people and how it distributes that revenue in terms of its expenses, how much is it putting into its social portfolio versus our jurisdiction, and how much, then, does it have to go after business and individuals for tax revenues? If you do not identify where the problems might be or where there are significant imbalances, then your mix of how much you are putting into

each of those pots may be out of kilter and you may get beyond the point where you can bring it back in line.

Hon Mr Laughren: Yes, and quite frankly I do not know to what extent the tax commission will be looking at something that is very broad that way. You are not just talking about a tax level or a tax rate in another jurisdiction; you are talking about what they do with the taxes when they get them.

Mr Sterling: And how they strike them. In a state Legislature, the whole Legislature is responsible for striking the budget and therefore each and every legislator has to be involved in the process. We seem to be tending over the last three or four years to be progressing down that road where we are trying to give more responsibilities to the legislators to have something to put into it. We are certainly not to the point where we have any responsibility, and I just thought it would be fruitful for us to look particularly at Michigan and New York state.

Hon Mr Laughren: It could very well be. You would not get any argument from me. Once again, I suppose I am in danger of saying things that seem good at first blush but may turn out to be more difficult down the road when I get to know more about what I am doing. I am thinking of opening up the budget-making process so that there is less secrecy around it as well. I do not know how to do that, but I can tell you that that is one of the things we are thinking about, if there is a way to do that. Once again, I do not know how to do it in the immediate, impending budget, but that is something I would like to see. Unless members of the Legislature have a sense of some kind of involvement in the process, why should they feel any kind of responsibility for what happens in the province if they have had absolutely no say in the making of economic budgetary policy?

Mr Kwinter: You want them to buy into the process?

Hon Mr Laughren: Yes. I know that can sound self-serving, but that is not how I mean it. It should be widely shared. You used the American model as an example.

Mrs Sullivan: I am going to start with the last thing first. I am sure that the Treasurer remembers—I think it was the 1986 budget—when there was a supplementary document attached relating to the budget process. In fact, it was recommended that this committee deal with hearing from interested parties relating to the budget; the standing committee on finance and economic affairs was seen as a first step in opening up the process. I know your officials are very familiar with that. They may want to look at that further to see what the thinking was then and where it may be able to be moved on.

I am interested in looking at some of the economic projections you have put forward. You spoke about the kind of surprise PIT and CIT revenue from the province for this particular fiscal year. The budget process will be dealing with next fiscal year, and I wonder what your projections are in relationship to the return from the feds for that particular period of time, given that the slowdown in the economy will have increased.

Hon Mr Laughren: For 1991-92?

Mrs Sullivan: Yes.

Hon Mr Laughren: I cannot answer that question, but I can tell you that there is nervousness about the income tax revenues being less—correct me if I am wrong here—because we know that, for example, in 1990 we have not had a good year, so there is a possibility that the numbers—

Mrs Sullivan: You have not made any projections, though—

Hon Mr Laughren: Not that I know of, no.

Mrs Sullivan: Okay. I wanted also to follow up on your view of separating capital and operating budgets. I think that is a fine idea, I think it is a very important step to take, but I was also interested in whether in considering that you would also be looking at separating the capital for which the province guarantees debt—ie, Ontario Hydro and perhaps the water and sewage services corporation—as part of a whole capital statement in conjunction with the budget. That may be something the committee wants to pursue as well.

1620

Hon Mr Laughren: That could be. I know there are different models you can use. You can use one model where you set up one capital account that lends the money to the separate corporations. Is that the Alberta model?

Dr Christie: More like Saskatchewan.

Hon Mr Laughren: It is a capital investment corporation that then funnels the money to—I do not know what we would do there.

Mrs Sullivan: I apologize, because I had to miss the initial part of your statement. Relating to the Fair Tax Commission, I wondered how broad we would anticipate things like, of course, personal and corporate income tax to be dealt with. Would you also be looking at property tax and assessment?

Hon Mr Laughren: That is a good question. For sure we want to look at the relationship between the provinces and the municipalities, and the properties and school boards. The assessment one drives me crazy. That one, boy, I would really want to think carefully about that one.

Mr Sterling: Come out with a poll tax.

Hon Mr Laughren: To be fair, the commission is not struck yet. We have not had a meeting with the people to discuss the specific mandates of how it is going to work and so forth. That is why I mentioned earlier that I had originally thought we could get this thing done before the Legislature adjourned and we could have an announcement in the House and so forth, and now we are not going to do that. As I said earlier, I do not think that is serious. You were not here then, I guess, when I talked about the fact that these commissioners are going to be considered by this committee considering appointments. That is going to slow the process down; they tell me it will be about 60 days by the time that whole thing gets moving. So that is another reason why we have not had a chance to work that out with the Chair or the Vice Chairs or the commissioners.

Mrs Sullivan: I suppose the same response would follow, because I also wanted to know if you were going to be looking at tax incentives and forgone revenues as part of that mandate.

Hon Mr Laughren: Yes, that I can tell you: expenditures and incentives.

Mrs Sullivan: And forgone revenues?

The Chair: It is indeed fortunate that we have only one delegation today, is it not?

Mrs Sullivan: That is right. Wait until the rest come in.

Completely apart from the budget process, I wonder if the Ministry of Treasury and Economics is reviewing the economic implications for Ontario of a potential free trade agreement with the US and Mexico, whether you see that as being a part of your agenda.

Hon Mr Laughren: I certainly see it being part of our responsibility, so I have no hesitation there. I do not know whether we have people churning away—

Dr Christie: There are people looking at the Mexican—

Hon Mr Laughren: I am sorry, you have to—

The Chair: Come forward, please.

Mrs Sullivan: As the former chairman, the Treasurer is very conscious of when the mike is on.

Hon Mr Laughren: That is right, I am.

Dr Christie: There are people, in Treasury and in other ministries, including Industry, Trade and Technology, looking at the implications of an arrangement with Mexico. The nature of the arrangement is as yet unclear, so any attempt to put numbers on implications is pretty difficult at this point because we do not know what kind of a deal we are dealing with.

Mrs Sullivan: Are officials from your ministry at the table or participating as observers in any of the discussions that are now under way, because certainly there are discussions?

Dr Christie: No one from Treasury is at that table.

Hon Mr Laughren: I do not think so.

Mr Kwinter: Just on the Treasurer's musings, I guess you could call them, about separating the capital from the operating, which I agree is an interesting one. What would your comments be on whether you would capitalize the debt service? Would you keep that as part of the operations or would you—

Hon Mr Laughren: I need help on this.

Dr Christie: If I could try that. By capitalizing the debt service, do I understand you to mean as Ontario Hydro does with some of its interest: not count all the interest as a current expense?

Mr Kwinter: You would take your present-fiscal-period interest as, I assume, an operating cost, but would you capitalize accumulated debt service? I do not know. I am just asking you.

Dr Christie: Normally, in the jurisdictions the Treasurer referred to, in terms of the United States and the

other Canadian provinces that run some variant of this, the annual interest costs on the debt are taken in as part of current expense and are not capitalized in the sense of being separated from current expenditures.

Hon Mr Laughren: Your doctoral thesis was not on that subject.

Dr Christie: No, I obviously missed that.

Mr Sterling: I have a supplementary on just that particular part. When you pay off a debt or part of a debt, you pay out \$100 and \$70 of that is interest and \$30 is principal. Is it all counted as \$100 and that is all we see? Does the government get any credit for the \$30 of capital it is paying back?

Mr Kwinter: The other question is, are you paying any capital or is it all just pure interest? Other than this year, with the \$500 million that went to paying down the debt, I think it is all just straight interest.

Hon Mr Laughren: I do not think we can answer your questions today. We would be quite happy to come back to you on that stuff, though. The other thing is that the first thing that struck me when people started talking about a capital account was—I hate to use this word—the optics of putting in a capital account when you are at a time of deficits. You have to be very careful and very clear about the purpose of setting up the capital account. There is enough cynicism out there now about governments and policymaking and budgets and deficits without adding to that by making it look as though we are trying to pretend we do not have a deficit or a smaller deficit.

Mr Conway: I wanted to raise three or four points, some of which have to do with information, and the answers I would not expect today.

One of the things I would be interested in getting from Treasury would be its best estimate of the annualized cost to the provincial government of the full implementation of the Social Assistance Review Committee phase 1 proposals. I think that might be very useful in light of now the presumably mature implementation of phase 1 and also against the current climate. It may not be possible; it may not even be something you want to talk about—I can certainly understand how the latter might be true—from a Treasury perspective. But if it were possible, it might be useful, to help focus at least my mind, to get by later in the winter Treasury's best estimate of the annualized cost of a full implementation of phase 1 of the SARC proposals, that is, the cost to the provincial government and—I do not suppose it is fair to ask, because some of us might even remember—what that number might be in relation to what the expectation was. That would be one of my requests.

The second one—you probably, I think, answered this someplace publicly—again, not for today, but perhaps for a time at some point in the winter, is an indication from you as to what you might expect to have to set aside, again on an annualized basis, for the doctors' fee settlement. You may have given that estimate, but—

Hon Mr Laughren: You mean—

Mr Conway: Well, as I think members will know, there are ongoing negotiations with—

Hon Mr Laughren: Right. We talked about that earlier.

Mr Conway: That is correct, and I probably missed that.

Hon Mr Laughren: What I said was that I hoped I would not have to talk about that number—

Mr Conway: I can appreciate that.

Hon Mr Laughren: —because of the negotiations. That was my problem. But your question is somewhat different, is it?

1630

Mr Conway: This has to do again with the budgetary planning you are going to be leading. Of course, any settlement in that respect is going to be viewed with a great deal of interest across the broad public sector, which you will lead in this respect. I would be interested to know at what point you think we might have some public indication of what the cost of that settlement is going to be to the provincial Treasury on an annualized basis.

Hon Mr Laughren: Oh, I see. Okay. If it builds into the—

Mr Conway: That is correct. There is a third point, something a couple of the members were talking about earlier—again, it takes me back—and that is the whole business about the best guess as to the Ontario return on personal income tax from Ottawa. I have a great respect, more than words can convey, for the people who work in the Ministry of Treasury and Economics. They are extremely professional people. One of the things that has really struck me over the years is the difficulty with trying to predict that. I understand why.

If the truth were told, a lot of the free spending—in the minds of some—that a previous government engaged in was paid for to an extent that I would not ever have imagined possible by the growth on that account. Certain people wearing nice blue blazers would come in and announce happily that instead of \$X billion it was going to be \$700 million more, and there was just sort of potlatch written over all the social ministers' faces, I being one of them, and we attacked.

I guess what I would say—you touched on it earlier, Treasurer—is that I remember a time, and I have a lot more appreciation now than I did seven or eight years ago, for one of your predecessors particularly, the former member for Muskoka, who was budgeting in exactly the reverse context, where the news from Ottawa was infinitely worse than anybody predicted. I think it was the fiscal year 1981-82 when it must have been horrible to have been either Treasurer or Deputy Treasurer, because the news just got worse by the hour.

I was out last night with some people who have much more business association than I do, and I was absolutely astonished at what they think is going to happen over the next year. I am sure they are wrong, not being a naysayer, but one of the concerns I have is that if they are anything like right—maybe somebody from the back could perhaps focus our minds and tell us how bad “bad” was in 1981, 1982 and 1983 in terms of what did not come in in relation

to what was expected, because I can remember budgets that were just a sea of red ink and it had very little to do with expenditure, but much more to do with just the collapse of revenue.

I guess the main point is that as I look at the next budgetary cycle, I see a number of things. I see a perfectly understandable tax expenditure of \$500 million, occasioned by the passage of Bill 1; perfectly legitimate it seems to me. But that is none the less from your point of view the surrender of \$500 million worth of traditional revenue that presumably you, more than any of the rest of us, are going to have to worry a little bit about. If we add to that a very significant collapse in those revenues that have been particularly buoyant in the last number of years—I cannot remember a time in the last five years when the payback from Ottawa on those accounts was not hundreds of millions of dollars higher than the very able and conservative estimators in your and my employ suggested. If you marry those two things, it seems to me one has shark-infested waters.

Hon Mr Laughren: A cause for concern.

Mr Conway: A final point that I will just make is this: It seems to me there are two or three other things that are occurring and are occurring with amazing speed. I noticed, and my friend the member for Wilson Heights was pointing out, in the financial press today just what is likely going to happen as a result of the collapse of the Uruguay round of the GATT negotiations. I will tell you, farmers in Ontario are going to be horrified. I suspect that before the snows of this winter melt, there may very well be some things that have an enormous impact on things like supply management. I do not mean to be gloomy, but I am sure that you, with your corn flakes, read the Financial Post summary of what the Americans are planning, and that appears to have very immediate potential on the Ontario agricultural sector.

I was very encouraged, I might say, to see the Premier on television a week ago Sunday night with Angelo Persichilli in which he seemed to be well advanced on the brief of the US-Mexican free trade agreement, so I am sure that in Treasury and in the Ministry of Industry, Trade and Technology the Premier's suggestions and commitments to Angelo are being acted upon in full—

Mrs Sullivan: Post-haste.

Mr Conway: Post-haste.

Mr Conway: It seems to me that the failure of GATT and what that is going to mean, for example, to supply management in Ontario agriculture is going to be enormously important and is going to act out over the course of the coming months. It is not going to be five years down the road. It appears in the course of recent indications that this is going to be a factor in the next 6 to 18 months. I know that in my area—to some extent I would suggest in yours, Treasurer—what is going on in the Ontario forestry sector is absolutely astonishing. It is not just a lot of the international conditions over which we do not have much control, but in the most patriotic way I can put this, I see, for example, in northeastern and my part of eastern Ontario some very significant effects of major changes in the

province of Quebec. I see a much more integrated industry in Quebec, and integrated in the sense as well of business, labour and government much, much more together on what the objectives are, the establishment of some very significant and powerful interests that are now beginning to play themselves out in a dramatic way in Nickel Belt, in Parry Sound, in Cochrane, in the Tri-town area, all through my part of eastern Ontario.

I am very concerned that one of these days, as the unemployment in that sector rises in your area and mine, a lot of Ontarians are going to awaken to what has happened. That is a restructuring, a critical part of which is occurring on Ontario crown land. I just do not want to have to go back home, or I do not expect you want to go back home, having to explain some of that restructuring for which we do not appear to be in a commercial or in an economic sense nearly as well prepared as our friends in the Quebec Federation of Labour, the Quebec federation of business and certainly the Quebec government.

So in that area, those two parts of our resource sector, it seems to me, are things that are going to have a very significant effect on a lot of the financial and budgetary climate of the next year or so, and certainly in agriculture and forestry I expect—well, it is happening now—but the pace of that change is certainly going to accelerate.

Hon Mr Laughren: I do not want to get into anything, but I just got a note saying that Bill 10, which is the corporate tax bill, might be up in 10 minutes. So I would appreciate it if I could leave in the next few minutes, but if you want to complete some—

The Chair: Mr Phillips, if you have a very quick question, then we will give you some time to wrap up.

Mr Phillips: A really quick question, and I do not mean to sound partisan on this, so I will try to walk very carefully.

Hon Mr Laughren: I would be so disappointed if you are not.

Mr Phillips: The Treasurer has indicated the recession, in his mind—probably halfway through next year we will start to move out of it, I think. In *An Agenda for People*, it said Ontario is in a recession. I am just trying to get a fix on—well, it does say that. So the promises made in *An Agenda for People* assume the recession. I gather the recession may be a little bit worse than you thought when you made that, but I am just trying to get an idea of the difference between what you estimated when you wrote *An Agenda for People* and what you see now. I realize we are going to be saying to you that these are your promises to the people of Ontario and you want to keep them. You are saying there is a difference between the recession we saw in August and the recession we see now. I am just trying to get a feeling of the magnitude of that difference.

Hon Mr Laughren: I think it is a trick question. It is safe to say, when that *Agenda for People* was being worked on, that we had—I do not think you will see any numbers there. We did not know the numbers on the depth of the recession. I am not talking about the numbers on the programs that are proposed—

Mr Phillips: Yes, I know.

Mr Sterling: Were there any numbers at all?

Mr Phillips: Oh, at the back there are.

Hon Mr Laughren: Oh yes, that was researched extensively. Anyway, it is safe and accurate to say, though, we had no idea of the numbers; we had none. To be fair—I have said this before and I say it again—I do not believe that Bob Nixon knew those numbers either when they changed so dramatically.

1640

Mr Phillips: On the recession?

Hon Mr Laughren: Yes. I have said that before. I might quarrel with a couple of factors, such as something not being in the numbers such as the SkyDome or UTDC. I might quarrel with that, but I would not quarrel with the fact that I do not think Bob Nixon knew that we were in the kind of recession we are in and what the numbers would be until it was too late. I certainly did not. If he did not know, how would we know? But I will tell you, though, that there were all sorts of people starting to predict that we were heading into a recession at that point. That was just another example of a farsighted document that was, just coincidentally, put together during the election campaign.

Mr Phillips: I think that you said it is a shallow recession and you predicted a recession; so there must be a relatively narrow range between the recession you saw then and the recession you see now.

Hon Mr Laughren: But even I, as Treasury critic back in those days, could not have told you or even imagine that between corporate income tax and retail sales tax we would drop almost \$1 billion in revenue. I could not have told you that if I had been under threat. I mean, I had no idea. I had no idea that our welfare case loads would cost us \$500 million more than it was budgeted for. I think that is about right, for the year. I do not think that anybody had any idea the numbers were that serious.

Mr Conway: I think you are going to take Frank Miller out for lunch.

Hon Mr Laughren: I already did once.

The Chair: Is there any summary you would like to present at this time?

Hon Mr Laughren: No, other than to say that I look forward to helping in any way we can with the committee, keeping in mind, as I said at the beginning, that it is your committee collectively, not ours, and if you do want to take part in the consultative process of hearing people who want to make appearances before this committee and/or Treasury that you will let us know because a lot of the requests come right to Treasury, so we can then set up a mechanism with you as to who hears whom and to determine how we work out that sharing of listening to groups.

Mr Kwinter: Just as clarification, when you started out, you said that you really encouraged this consultation process and that there should not be duplication, but you also implied that it was probably too late for this year's budget. What I would really like the clarification on is, is it too late? Should we be seeing people now, or will it have any impact?

Hon Mr Laughren: I do not believe it is too late but, as I said earlier, that would be based on the assumption that it starts fairly soon so there is feedback to us. I do not think we can change the whole opening up of the budget process this year. I think it is too late for that. I think it is too late to have a different approach to budget in terms of secrecy. I have a feeling that this is going to take a lot more careful thought than simply jumping into a committee and starting to share numbers that have not previously been shared. I really want to do that carefully, but in terms of meeting with the groups that want to meet with Treasury and/or the committee, it would not be too late.

The Chair: On behalf of the committee, I would like to thank you for spending this time with us this afternoon, Treasurer. I found it very interesting and I am sure the members of the committee appreciate the sentiment you have that this committee can play a real role in the formation of budgetary documents. Before you go, could you introduce the members of your staff who are here so the committee can have a name on all faces.

Hon Mr Laughren: Yes. Bob Christie is assistant deputy minister, and Bryan Davies is the Deputy Treasurer; then there is Steven Dorey, Qaid Silk, John Hoicka and Simon Rosenblum, who works with me.

The Chair: We just wanted to have some faces to names so that we know who to invite to grill next.

Hon Mr Laughren: You know Serek Ferguson, do you not, to help us out with deficit numbers?

The Chair: Thank you very much for coming.

Hon Mr Laughren: Thank you very much. Good luck.

The Chair: Would the committee like to have the ministry staff stay for a little bit? We could invite them. Do you have any more questions for them? What is the pleasure?

Mrs Sullivan: No.

The Chair: They have other business to conduct? All right. They can have a nice afternoon then.

ORGANIZATION

The Chair: I think we should move on to the second part of the agenda, and that is the organization and the consideration of a report from the subcommittee on the committee business. I will give you a couple of minutes to read over the recommendations of the subcommittee.

Mr Christopherson: Was it not possible for this material to be circulated prior to the meeting? Did your subcommittee just meet before this one?

The Chair: I received this package about three hours ago.

Mr Christopherson: We all understand things come at the last minute, but normally there is an attempt to try to get material out so that you are not looking at it very, very quickly. I just want to make the point early in the game, so that where at all possible we recognize the need to get this material in our hands beforehand. That is all.

The Chair: I will take that as a notation, and thank you.

Mr Sterling: In defence of the clerk, in the normal procedure of committees in the past this kind of information dealing with advertising and our budget usually is given to us at the meeting because the clerks have found that most members omit to bring the material to the meeting.

Mr Christopherson: I do not want to make a federal case out of it.

Mr Sterling: No. In most cases the clerks are very good.

Mr Christopherson: Until it is routine for all of us, it would be nice to get it so that we can establish that it is routine.

The Chair: With my classes, I used to give it out and take it back so that it was there for the next class.

1650

Mr Phillips: It looks to make a lot of sense to me. Could you just perhaps orally give us a little bit of explanation on it? What this suggests is that we would plan to meet for three weeks continuously as of 28 January. Is that right?

The Chair: Is it the 28th or the 21st?

Clerk of the Committee: If I could, in the draft advertisement you see in front of you, I just picked those dates out of the air. They do not have any particular significance. They are just there to fill the space. The times that are allotted to the committee by the House leaders to meet would affect the dates that go in there.

The Chair: I think we have to be cognizant of the time frame that the Treasurer indicated. For us to have a really meaningful input into the budgetary process, we would have to complete and have the document to them in the first six weeks as opposed to the last six weeks.

Mr Phillips: I am just trying to get an idea. Is it three consecutive weeks? This suggests the expectation of the committee that they want us to travel, or do we do all the hearings here? I am just trying to get an idea of what the committee thought we would be doing and when.

The Chair: My sense of that was that we would do two weeks here, and then there would be a period of three or four days, and then we would travel if that was the determination of the committee, if that is what the committee decided to do. I am trying to remember if it was discussed in total. Maybe the other members of the subcommittee could help me out on this one. It was felt that if we had those two weeks of intense hearings and then we had a period of time to digest the information and then if we had decided to travel, we would be able to do it, having had time to digest some of the presentations that have been given to us.

Ms M. Ward: I did not catch what the clerk said there when someone was asking about dates, because I had a question about the second point. I think you said you just picked some dates as examples. Does that apply to the second point of placing the advertisement in the last week of January?

Clerk of the Committee: The advertisement could go in virtually any time. Our advertising agency can generate these ads and get them placed usually within a week. I explained to the subcommittee that usually it is of marginal benefit to get an ad in just at this time of year. The pre-budget consultations fall at a bad time of year. Just before Christmas and between Christmas and New Year's Day is traditionally a bad time to try to get the best response out of an ad. So it was my recommendation to the subcommittee, but the committee can decide what it likes, to try to get the ad in very early in the new year, say during the first week of January.

Ms M. Ward: So these dates all were just sample dates; you had not fixed leaving it that far in the future?

The Chair: No, I do not believe we as a committee can set them in stone, because the party whips will get together and decide that.

Mr Kwinter: But in that item 2, that the ad be placed in the first week of January was the point the clerk was making.

Mrs Sullivan: What dates did you submit as a request to the House leaders? From the 21st?

Clerk of the Committee: We asked for the last two weeks in January and the first week in February.

The Chair: That will be subject to some consultation, because some of the other committees have also been set in that time frame.

Mrs Sullivan: I think one of the things the House leaders take into account is whether there are members who sit on competing committees. If that does not happen to be the case, we may well get the dates that were requested and we should probably put them in pencil in our books now.

Mr Christopherson: What are those dates?

Mrs Sullivan: The last two weeks in January and the first week of February.

Mr Christopherson: That is just for those three weeks. The budget seems to show six.

Mr Sterling: That is for later on in the year.

Clerk of the Committee: This budget in the amount of \$72,112 makes provision for three weeks of meetings. The separate line items are the per diems to which members are entitled when a committee meets. There were a few weeks of per diems accounted for there, travel expenses for members for those same three weeks, meal allowance for those same weeks, transportation. All of those items refer to the same three weeks of hearings the committee would hold.

Mr Christopherson: But the first one shows—oh, 15 days. Okay, I thought it was showing a payment of \$78 twice for three weeks, but where it says three weeks of meeting, when you look at it, it is actually only 15 days and six days.

Clerk of the Committee: The 15 days would be five days in each of three weeks that the members meet here at Queen's Park and the six days would be a day at the beginning and a day at the end of each of those same three

weeks when members travel to and from their constituencies.

Mr Phillips: Whether I am here or if I get downtown tomorrow.

The Chair: If you want to discuss remunerating some of these budgetary moneys, maybe we should deal with this item by item and then we can resolve this in some kind of logical fashion. I think we need a motion to actually proceed with the pre-budgetary consultation.

Is there any discussion to the motion about having a pre-budgetary consultation period? Are you moving the adoption of the subcommittee report? I think we had better do that first.

Mr Fletcher: What is the motion? What are we voting on?

The Chair: The motion right now on the floor is to adopt the report from the subcommittee.

Mr Christopherson: Under point iii it says that the committee may invite. What is the process of determining who gets invited and who does not?

The Chair: The subcommittee had some discussion of that when it met on Tuesday. It was of the opinion that, as opposed to giving an indication that everyone who responded to the ad would automatically be given a chance to appear before the committee, given the limited amount of time available to the committee, only three weeks, it may be possible there would be more requests than could be accommodated. So the subcommittee wanted to reserve to itself the ability, if it had to, to pick and choose from among those groups so that it would be a representative cross-section of all the requests.

Mr Christopherson: I appreciate and understand the rationale for the wording and for the caveat. I was more questioning how the determination would take place. You are suggesting to me that it would be the subcommittee. Now what I am unclear on is, is it the subcommittee recommending to this main committee or is it the subcommittee being empowered to make that decision?

The Chair: In the fifth paragraph of the subcommittee report, the subcommittee is asking the committee for permission to give it authority to finalize the committee's agenda. After the ad ran and the list of requests to appear was assembled, the subcommittee would meet and, having been given authority by the committee to do so, would finalize the committee schedule of hearings.

Mr Christopherson: Four on the subcommittee? Who is on the subcommittee?

The Chair: Mr Hansen, Mr Kwinter, Mr Sterling and myself.

Mr Christopherson: With four members, what do you do in the event of a tie?

The Chair: In the event of a tie, it comes back to be dealt with here by the committee.

Clerk of the Committee: Normally, the Chairman would not vote unless there were a tie on the subcommittee.

Mr Christopherson: You will not get a tie with only three members voting.

1700

Clerk of the Committee: The three members vote and no one can be missing from the subcommittee, because its terms of reference, which were adopted last week, require all three members to be in attendance.

Mr Christopherson: If that is the case, I would have to express some concern about that. Obviously, the people or the groups that are invited are an important element of this whole process. I think that something this important is best brought back to the full committee for consideration, so that if there needs to be a vote taken in making a decision, it can be done with all of the members of the committee. I would like at the appropriate time—I would seek your guidance as to when that would be—to move that amendment. I believe it would be to point iv, but I would seek assistance from the clerk also, in ensuring I have the right clause.

The Chair: Just on advice from the clerk here, his indication is that this committee as a whole cannot meet outside the sitting of the House and cannot meet outside the time allocated to it by the House, which is determined by the whips. The subcommittee can meet outside that and make a determination and can make some of those decisions and bring them back to the committee.

Mr Christopherson: I am sorry. I must be me, but I did not follow that fully.

Mr Sterling: It means that before the first meeting, there cannot be another meeting to make the determination of who is going to be a witness and who is not going to be a witness.

Mrs Sullivan: The first day of meetings of the whole committee that will be authorized by the House leaders and scheduled would then become the first day of the public hearings.

Mr Christopherson: But if it was decided by the committee, we could at least make the request that we be allowed that opportunity. I have a real concern about this. I do not do it lightly. I really that it could be problematic to let it go the way it is. I really would like to see that list come back to the full committee for approval.

I am willing to be flexible if the subcommittee would like to circulate the list and then, only at the request of the given number of members, would we need to. That is fine. I mean, not having been through this process, I have to ask the indulgence of the members opposite in that, if this is making a mountain out of a molehill, I apologize, but I do have to feel comfortable every step of the way. I think one can see the obvious concerns here.

The Chair: I understand your concern. What I would look for now is some kind of a mechanism where we could work through this kind of process so that when we do meet, the first meeting would actually be hearing people as opposed to a business meeting.

Mrs Sullivan: Perhaps I could be of some help. If, by example, the committee is granted the days that have been requested which are the last three weeks of January from

the 21st, what we will be looking at probably is to close off invitations for requests for oral submissions on about the 16 January, which is a week before the committee actually sits. That would be a time when the subcommittee would convene to review the submissions, to check for overlap which frequently there is in terms of the nature of the submission and so on.

Every member of the committee, of course, also receives written briefs that are submitted. Perhaps the subcommittee would agree to advise the rest of the members of the committee that they will be meeting to discuss those issues. The members of the committee would of course have to recognize that those would be dates on which they would not receive members' allowances for participating, but they may want to participate as observers at those meetings.

Then the invitations to interested parties who wanted to appear before the committee could go out in a reasonable period of time so that any oral brief which may differ in their presentation from the written briefs could be prepared.

Additionally, I think it has always been the expectation that in fact written briefs are received through a lengthier period than even oral briefs are presented. That too is something that we can keep in mind. If committee members are doing their homework, there can be follow-up on the written briefs as the report is being prepared as well.

The Chair: Any controversy over who should be included and who should not be included could possibly be dealt with in a short meeting after some of the early meetings and that can be done by this whole committee.

Mr Christopherson: I appreciate that and again I do respectfully acknowledge that I may be seeing things that are not here, or concerned about things, but I still have some difficulty with that process. I appreciate the opportunity to be given the chance to give advice. What I am seeking is a chance to have a say, and as just one member, I consider that to be an important part of all of this and would like an opportunity to have a vote.

I am precluded from that if I support what is in front of us. There has to be some mechanism—now if the majority of the committee disagrees with me, and that is quite possible, I have not heard from everyone, I will respect that, but at this time I have to say that I am not satisfied and I am not comfortable with this and cannot support it the way it is.

Mrs Sullivan: Who is on the subcommittee?
Interjection.

Mr Kwinter: The committee is representative. You have to decide whether this is a committee of the whole and it makes all of the decisions or it is representational. I would suggest that sort of solution could be something that my colleague here has suggested, that the subcommittee structure the first meeting. I may be wrong, but it seems to me that your concern is that some people who you would like to have on may not get on, as opposed to some getting on whom you are happy with. I think that it is a matter of who does not get on as opposed to who does get on.

Mr Christopherson: I think that is obvious, yes.

Mr Kwinter: The point I am making is that you would have no problem with the first day's official session if the subcommittee picks some names that had made submissions. Your concern is that some people not be precluded from appearing. Then what we could do is meet after the hearings—it would be part of that day, everybody would be in—and we could take a look at structuring the next days.

Mr Christopherson: I am comfortable with that. If I can just throw it back so that I understand it, you are suggesting that the committee then would be empowered to arbitrarily choose for the first day those who would come.

Mr Kwinter: Or maybe even the first two or three days.

Mrs Sullivan: There are two weeks.

Mr Christopherson: That is fine.

Mr Kwinter: Yes, it would have to be the first couple of days, because there are two weeks of hearings. We would have to get the thing going.

Mr Christopherson: I understand that.

Mr Kwinter: At the end of the day we would then meet as a committee of the whole.

Mr Christopherson: How much time are you suggesting would be locked in prior to that discussion by the committee?

The Chair: Let's hear from Mr Rizzo.

Mr Rizzo: I have a question. Is it possible to change the number of members in the subcommittee at this stage?

The Chair: No, those are already determined.

Mr Jamison: I think that it is an important part or makeup of this committee that the committee members at least have a sense that they have input at all times into where the information is gathered and how it is gathered. To start off the committee in a vein that in my opinion really does not allow, for example, my input—because I feel that I am put here to do exactly that, to have input on whom we would hear and whom we feel it would be more important to hear and so forth. I understand, Mr Kwinter, the context of what you are saying, but I do feel that it is important that we as a committee of the House, as a whole, have the ability, each and every individual one of us, to speak about the concerns as the committee goes on, as to who we hear and what our agenda not only is but will become as we carry on, because obviously we have a vast number of people to speak to.

I want to be part of that process and if I have a concern, I do not want to have a situation where I have no possibility of vetting it. In my mind you have offered a constructive approach to my concern and I think my colleague has asked an appropriate question, what time frame we would be looking at as far as having that full consultation and an ability to have input take place is concerned.

1710

Mr Hansen: Mr Chairman, I would appreciate it if you would put the names down in order so that people do

not jump in. I thought that was why we put our hand up: to take turns.

Maybe I need a little bit of history here. How much is short-listed from the very beginning of the applications that are coming in? Just give me a fast bearing on that. In other words, if you have 100 applicants—I think this is the concern of the other members on the committee—who want to speak orally, you say, “Well, in that time frame we will be allowed only to have 75, and 25 will have to turn around and put in a written submission.” Am I correct on this?

The Chair: I am going to turn the answer to that question over to Anne Anderson.

Ms Anderson: In pre-budget hearings in the past, they have always heard from all the witnesses over two weeks or three weeks. They have been able to fit them in, if necessary by giving them a shorter period of time. So they may have had only 15 minutes a group for the small groups and half an hour for the bigger groups, but they came and have generally been heard.

Mr Hansen: Am I correct in saying that there is a written submission before the oral submission on every one? It says “oral” and “written” here, but is there also a written one that comes in ahead?

Ms Anderson: Not necessarily.

Mr Hansen: Not necessarily.

Ms Anderson: Some groups send in written submissions ahead. A lot of them bring them in at the time and distribute them during the course of their briefing. Some do not have any written brief at all, and then are groups that only send written briefs and do not wish to appear.

Mr Hansen: When some of them they come in, we have a clear mind. We do not even know what they are here for until they wind up standing up and speaking to us.

Ms Anderson: That is right.

Ms M. Ward: I agree basically with what David was saying about his concerns and probably what I was going to ask has been answered, but part of it has been further confused.

In section 3 we are saying that all submissions are invited in writing and that some groups may be offered the invitation to present orally. You are saying that in the past you have not necessarily had a written submission with every group that appeared. Is that correct?

Ms Anderson: That is correct.

Ms M. Ward: My question was partly whether or not this sort of filtering that was recommended in here applied to written submissions, assuming that you might have a number of groups submitting written material and only some of those might be invited to appear to make a presentation in person, whether or not there was also that filtering intended concerning the written submissions that we would deal with? Is my question making any sense to you?

Ms Anderson: I think everybody would receive the written submissions.

Ms M. Ward: Yes, we receive them, but would we necessarily deal with them all, or would that subcommittee,

the way this was originally intended, have the authority to determine that, no, perhaps we were not going to deal with those written submissions either?

The Chair: Perhaps I could ask the clerk at this point to explain what has happened in the past.

Clerk of the Committee: When written submissions come in, they are distributed to all the members and they are made available. They are made an exhibit of the committee's proceedings and form part of the official record. Often groups that have submitted written submissions will also appear before the committee to present those submissions orally and to answer the committee's questions about their submissions. The written submissions are not dealt with per se other than being given to the members, forming part of the record and being available to anyone to scrutinize. Usually the committee asks that a summary of all the main recommendations in all the submissions be prepared by the legislative researchers, and that document also forms part of the committee's record.

Ms M. Ward: Would we not have some debate, discussion or deliberations on those submissions as a committee?

The Chair: Perhaps we need a further explanation of how the subcommittee worked in the past and how these lists and decisions were made in the past.

Clerk of the Committee: In the past it has been extremely common practice for subcommittees to be given these kinds of powers and to deal with the kinds of issues that are dealt with here. The main problem is the timing if the committee does not have the ability to meet as a whole prior to the beginning of the hearings, so a mechanism is needed to arrange the hearings, schedule the witnesses and structure them in some way that makes sense when the witnesses do appear.

I suggested to the Chair that one way we might be able to work around this would be if the total list of requests to appear before the committee that the subcommittee would consider and decide on could be distributed to all of the committee members a couple of days in advance, or as far in advance as possible, of the subcommittee's meeting and those members who have a specific interest in any of the requests on the list could let the subcommittee know that they would like to have this group or that organization appear before the committee.

Mr Kwinter: Let me give you a little bit of the background of where I think this thing is coming from. Let us say this ad is placed in the media and we get 15 people requesting either written submissions or oral submissions. Obviously we would listen to them all. We would be not only listening to them, we would try to keep them there as long as we could so that we could find something to talk about.

On the other hand, it is also quite possible, if you take a look at some of the people who submitted representations last time, that there are individuals who may have some idea of how they want to impact on the budget. They may want to declare all of Canada a GST-free zone or something, whatever it is. They may have some idea and you may get thousands of them for some reason. So there has

to be some mechanism to be able to limit that. There had to be some way of saying, "We physically cannot hear everybody if they all decide to descend on us one at a time."

The whole purpose of putting that provision in is to reserve the right to say, "Just because you make a submission, we may not be able to have an oral presentation." That is really the purpose of it. There is no other implication.

As I said, I think a solution is to let the subcommittee pick the first people so that we can get the thing going, and then take a look at it and have everybody have some input into it to deal with the time that we have and the number of people who are requesting an opportunity to appear before the committee. It may be strictly academic and we may not find that there are enough people to fill the time we have allotted, or there may be 100 times more than we can accommodate. Somewhere along the line that decision is going to have to be made.

Mrs Sullivan: I can understand why there have been questions relating to these issues and they sort of are becoming clearer as the discussion goes on. I think that as we look at the role of this committee, what we are doing is ultimately attempting to come together in a kind of non-partisan way to present recommendations within the economic context of our times, relating to priorities that we as a legislative committee, separate from the Treasurer, ought to be considering for inclusion in the budget, whether they be revenue moves, whether they be expenditure moves, whether they be in relationship to debt management, whether they be thematic, for instance recommending emphasis on certain themes, whether it is social care or economic themes.

The Treasurer, in his shop, will also be conducting quite intensive briefings with his ministry officials. The input in those circumstances may well be the same document that goes directly to him as comes to us. We may see it, however, in a very different way and we will not go through, to as specialized an extent, the depth of analysis that his officials may go through with the entire Treasury bureaucracy. But there may be thematics from some of the presentations that we may wish to balance against other groups and organizations, or that we see as themes that should be followed.

1720

One of the things that we will see, particularly I would suggest in this period, which is quite a different budgetary context than the last two or three years where we were in an expansionary period, probably is similar themes from many groups. I would suggest that, by example, the Ontario Federation of Agriculture may be expressing quite similar concerns relating to the economy as several other groups might do. In discussions, if there are competing impacts that are identified by different groups, we may want to balance or even draw out further information from other groups.

If we have the freedom as a whole committee to get the standard and usual 40 or 42 groups, whatever it was that appeared last year, before the committee, they will tend to

be the larger groups, the groups which are the umbrella organizations, against which you can ask questions, one presentation of another. There may be follow-up work that the committee research service would be asked to do on behalf of the committee.

As well, with all of the written and oral presentations, there will be a summary of what has been presented to the committee, in terms of major recommendations, in terms of minor points. The committee members take those into account in discussions in committee, sometimes in camera, sometimes in the open, of what specific areas they want to follow up on. They may also want, say in the last few days of the committee, to extend their hours instead of closing at 6 or something and perhaps ask people to come back—that has been done in some committees—or ask additional people to come on, or in fact ask that an extra day be added to the committee's schedule within the context of the three weeks that the House will allow us to sit.

I think there are methods for all committee members to participate in the selection of people and interested parties and groups and organizations that will appear before the committee. The other thing we have to remember is that the arguments are no less strong because they are presented to us in writing. As committee members, it is incumbent upon us to look at the written briefs and to take those into account as much as we do the oral material.

Some of the stuff will be very complicated. At the end of the discussions, we may want to have Treasury officials come back to discuss some of the impacts that have been presented to us before we even sit down to think about where we want our report to go. There usually is, in all committees, as I recall, a fair amount of discussion among all of the committee members about what the nature of the final report will be, how that report should be drafted and where the emphasis should be in the report, and that is usually a pretty frank and open discussion. There is a good deal of interchange between the members as to what the priorities for attention should be.

I think you will find that it is a healthy process. I think you will also find that there is opportunity to say yes, let's bring in this group or let's get reconfirmation of information that they presented as it fits in, say, with another presenter.

The intervenors for the most part will have been before legislative committees before and some of them will be emphasizing the particular needs and demands of their own organizations. Others will be looking at the economic needs of Ontario, as they see it, in a broader context, rather than, say, be specifically sectorally oriented. I think that as things unfold you will feel more comfortable with the process.

Mr Hansen: Maybe this is a question for the clerk. Let's say the Action Committee on Tourism in 1989 made an oral presentation. Is there any indication before it makes its presentation in what area it is going to be talking on?

Clerk of the Committee: It is normal practice for clerks of committees, when they are dealing with witnesses, to suggest to them that it is most helpful to the committee if they are able to submit their material in writing

in advance of their presentation. Many do, some cannot or will not, and others do not. It was pointed out that often groups come with their presentations at the time. Where we are able to secure those ahead of time, we will.

Mr Hansen: Okay. I do not want Arthur Murray's Dance Studio to show us how to waltz on top of the tables feeling that this will create a lot of employment here in Ontario and embarrass the committee, so I would just like to know ahead of time that some of the people who are appearing will not embarrass this committee. I have seen it done before and I just do not want to be in the process. I would like to know ahead of time exactly who is appearing and on what areas, and possibly have an idea—are we allowed a flow of questions to a presentation?

Clerk of the Committee: Yes.

Mr Hansen: Okay, fine. I thought maybe we sat here on our hands and let them speak, and then afterwards we meet about it, but I would feel better; I would be able to be a little bit prepared before these people appear.

Mr Christopherson: Very briefly, I concur very much with Mrs Sullivan's comments. I think that it needs to be said, though, that a certain amount of profile is or can be given to groups that are coming and making oral presentations. There may or may not be media coverage. There is perhaps more interest from other members of the Legislature by virtue of being able to come here and listen to it at first hand.

I want to focus on the non-partisan comments because I agree with that. I really do. This committee needs to be working independently of the Ministry of Treasury and Economics, and I say that in full recognition of my role as the Treasurer's parliamentary assistant; it needs to in order to have the Legislature work the way it should.

I think we do that best by making sure that the process is thoroughly debated and that everyone is comfortable with that. When process is set and everyone feels comfortable that fairness is part of the process, then it lets down the partisan guards and allows us to move forward as a group as cohesively as we can. That was why I raised it. I was trying to prevent and head off problems that I could see coming, and that is why I raised it.

I am fully prepared to close. I am fully prepared either to move a motion of my own or to second one placed by Mr Kwinter that would see the subcommittee empowered to set the first five days of hearings to get the ball rolling, as he has said, and at the end of our first hearing day we would consider the recommendations of the subcommittee for the balance of the hearings, at which time those finalized decisions would be made by the full committee.

I think that is perhaps the compromise, if you will, that we were looking for. That certainly satisfies my concerns, and I think it will allow us to move. Mr Chair, I am prepared to either move or second, whatever you are most comfortable with.

Mr Kwinter: I have no problem with that at all. I just want to make a comment to address the concerns of the Vice-Chairman. The concerns that the Vice-Chairman has are exactly the reason for that provision, so that if there is

someone who everybody acknowledges is just off the wall, you are not obligated to make sure that he has a hearing.

The other thing you will find—we are just at a temporary disadvantage in that all the members of the subcommittee, the ones who have been on them, are on this side and there is nobody on that side who has, and I understand that—is that some of these oral presentations are just the reading of the written submission. They come and they read it. They say, "Thank you very much," and that is it.

You have no way of knowing that, but it is really what it is. These people will come along and they will go through the whole thing. Some of them—I am not trying to be sort of critical—are very inarticulate. They really barely get through reading the submission and then when you ask them, they have no response. I am not saying that is typical, but it does happen. It is interesting. I have no problem, and I certainly feel that is a reasonable resolution of this discussion.

1730

The Chair: Could I have the clerk read the amendment to section 4?

Clerk of the Committee: An amendment to section 4 of the subcommittee report, which I think would accommodate Mr Christopherson's concern, could now read:

"The subcommittee recommends that it be authorized to review all submissions and to finalize the first week of the committee's scheduled hearings by confirming those groups, organizations and individuals who will be invited to present their views to the committee orally. The committee will direct the subcommittee on the scheduled hearings for all remaining meetings."

Mr Christopherson: I am comfortable asking the subcommittee for its recommendations. I would like to see it do the work Mr Kwinter talked about, so if you want to include that they will recommend to the full committee the schedule for the balance of the two weeks.

Mr Kwinter: Why do we not put it that the final period, other than the first five days, will be the recommendations of the subcommittee, subject to the approval of the committee?

Mr Christopherson: That is fine, and it gives you all the authority you need to move ahead.

The Chair: Is there any discussion on this amendment? All in favour? Carried.

We need a motion now to present the ad. We should include some discussion on how long the ad is going to run. I have just been advised by the clerk that it is customary that it run for one day. Of course, as we have just broken new ground in this committee in the last amendment, who knows what we will do with this one? Could I have a motion to present the ad? Mr Sutherland moves that we present the ad. Now we can discuss.

Mr Sutherland: I do not think there is a lot to discuss; I think that issue has been resolved. Actually, I guess there is one issue that comes up which is kind of related to the budget. If we are going to advertise, are we going to hold all the hearings here at Queen's Park or are we going to hold some hearings around the province? I am sure

there are many groups which do not have the funds to get to Toronto from the north, the east and the south, and should we schedule a few days in some of those areas to allow people to make them? I would certainly like to see some discussion on that issue, because I think that type of information should be in the ad so those people will decide whether they want to come personally or send written submissions.

Clerk of the Committee: In the package of material you have a copy of the advertisement that ran last year in both French and English. You will note that in the first paragraph it says "and other locations, as determined." I had not put that in this ad. I can if the committee wants me to. I did not because the committee did not get enough interest from those regions to require it to travel outside of Toronto. Most of the interest was Toronto-based and the hearings were able to be held here. But if the committee would like to leave its options open—

Mr Sutherland: If I can just clarify that, is the history that the majority of the organization would be the provincial organization, and therefore it might be the Ontario Mining Association we have rather than the local miners' group in Sudbury and that type of thing? Is that usually the traditional way we have done it?

Clerk of the Committee: It is often, as Mrs Sullivan mentioned, that the larger umbrella groups that tend to be Toronto-based are quite able to travel to Toronto to meet with us here.

Mrs Sullivan: Just on that point, where there are groups and organizations from outside of the area who may have a particular statement but do not have funds, there usually is a provision in the budget, and I believe it is here under "witness fees and expenses," to assist them with the cost of their travel to Toronto. That is usually offered after discussion with the committee when the witness indicates that they might not otherwise appear. Given that there are specific requests from the committee for them to appear, the decision to invite them and to assist them with their expenses is an appropriate way of doing that. I think the budget that is included here for the advertisement is adequate, and the practice in the past in terms of placement of the advertisements is one we can simply follow for this session.

Mr Fletcher: I was wondering about the ad. Is the ad French-English? Does it appear in any other ethnic papers or any other language?

Clerk of the Committee: It can if the committee wants it to. Normally, when any committee is doing its standard advertising program it will advertise in all the English dailies in Ontario in English and in the French daily, which is the Ottawa Le Droit, in French for one day. The cost of doing that sort of thing, depending on the day of the week and the position in the paper, is usually between \$10,000 and \$15,000.

Mr Kwinter: The point I wanted to make is that maybe we could leave our options open. I do not see any great harm in having the same ad we had the last time, where it says, "and other locations, as determined." We may determine there are no other locations.

The Chair: I do not know if it is appropriate for me to—probably not. Mr Conway made an interesting comment about the relative comparison of the northern region with Quebec and this location. It is up to the committee, of course, but we may want to think about moving around a bit.

Mr Hansen: I have to agree with Mr Kwinter, because I feel that the people in the north might feel left out of the process if the hearings are going to be only in Toronto, even though in the past it has been that way. I think it should be left open that it is for the province of Ontario and not just to meet here in Toronto. I hear it all the time even though I am from the east, as I camp up there, I have a cabin up there. I hear it in the north all the time that everything centralizes around Toronto. I think we have to get that image away; this is a whole province, not just Toronto.

Mr Fletcher: You will never get rid of that image.

Mr Hansen: I know.

Mr Sutherland: I think that issue has been adequately addressed, the concern I had. If we determine to move it around or whatever, or fly them in, it is perfectly fine that we wait until that time. I would suggest that we go to a vote on the advertising.

The Chair: Is there any other discussion? Calling the question on the advertising, all those in favour?

Motion agreed to.

The Chair: The budget is next. This is going to raise some of those questions about whether we—it is going to have Jim Wiseman's name on it this time.

Mr Christopherson: I move the budget.

The Chair: My question is, which budget are you moving?

Mr Christopherson: How many are there?

The Chair: If you notice the budget, it does not have—

Mr Christopherson: Which budget?

1740

The Chair: The one you have. It does not have transportation or costs for travel. Mr Sterling had suggested that this committee consider whether it should travel to Albany, New York, Lansing, Michigan, and Quebec, some combination of or one of those, in order to gain an appreciation for their process and for whatever changes we can make. We need to discuss that.

Mr Sutherland: My personal feeling is that I like what Mr Sterling has been saying about looking at the processes. For the public of Ontario, I think the current process is not the best; it needs to be more open. Given the time lines we are all facing, I am not sure whether this committee is going to be able to do that process for this specific budget. That may be something we have to take up after this current process is completed for this specific budget and then go from there.

Mr Kwinter: I am speaking to the suggestion made by Mr Sterling. It would seem to me that it does not make any sense if we identify Lansing, Albany and Quebec unless

we have an idea that there is some benefit for 13 of us to go there to talk to one person or two people when we can bring those two people here to talk to us. It makes no sense to me unless there is some major reason why we should pick up this whole operation and move it somewhere, there is going to be some benefit. It would seem to me that if there was a need to talk to those people and it was felt it was important that we have person-to-person contact, we should look at putting in some kind of figure to bring them as witnesses to this committee.

He seems to be—the word is “fixated.” He keeps mentioning, every time we meet, that he wants to go to these places. I personally do not see any great attraction—well, Quebec City is not bad; but I just do not see the efficacy of doing that. It does not seem to make any sense unless, as I say, there is some genuine reason it would be beneficial that we all go to a particular location.

The Chair: Perhaps I could give some information on that. If the whole committee were to go to Albany, it would add \$10,200 to this. If the whole committee were to go to Lansing, Michigan, it would add \$8,170 to this. If we were all to go to Quebec City, it would add \$10,800. If we decided that we would go to all of them, the budget would swell to \$101,282.

Mr Jamison: I agree wholeheartedly with Mr Kwinter. We could have the ability to decide to go somewhere as required, but certainly it is much more reasonable, to say the least, to bring one or two individuals here if required to speak to the committee. Reasons why this committee may have to travel may develop, but they are certainly going to have to be better than just to go and see someone. I would rather bring one person to see 13.

Mr Hansen: I think you should have related the point that in our subcommittee discussion we had already decided it was too expensive; what we would find out from Lansing and Albany would be too expensive and it would be better to have a witness come here. That was already discussed. We did not take a look at bringing the whole committee of 13 to those areas. The only one left open as an option that possibly we would take a look at was Quebec City, that possibly we could look at the upcoming GST, the effect in Quebec and some ramifications here in Ontario also. That was the only reason, that the whole committee could investigate a little more up there.

Mrs Sullivan: I think there is a consensus here that we do not need to travel for this particular phase of the mandate of the committee; that is, particularly relating to pre-budget considerations. Perhaps with a different mandate and summer activity we may want to make a very different recommendation, but these budgets do not exist with our decision; they have to go on to the Board of Internal Economy and be defended there. What I am suggesting, by way of motion, is that the clerk adjust the budget to include a reasonable number of dollars for travel within Ontario for use as necessary to meet with groups who cannot otherwise meet us in Toronto and that that be the only change to the budget.

The Chair: This budget is until 31 March.

Mrs Sullivan: We will only be authorized for the three weeks of sittings.

Mr Christopherson: I need a clarification on the travel-transportation mileage, \$2,500 per week. What is that for?

Clerk of the Committee: When members travel to and from Toronto to attend meetings of committees held here, they are entitled to claim mileage in their private cars, or their bus, train or airline travel; \$2,500 a week usually will cover all of those expenses for all the members.

Mr Christopherson: Do we not get that anyway?

Mrs Sullivan: You do not pay for it. You do not charge it back on your other allowance. You charge it through committee.

Mr Christopherson: I see. Any idea what kind of money we are talking about?

The Chair: For that kind of travel?

Clerk of the Committee: I would think it would be similar to the amounts that would be required for the committee to spend a day away in, say, Quebec City. That was estimated at about \$10,800. If we were to go to Thunder Bay, I would expect the cost would be in that range for airfares and overnight accommodation for one day.

Mr Christopherson: I have another quick question. I would ask the veterans to help out here. From the time that our hearings are completed, say at the end of the first week in February if we meet that time frame, what happens then? What happens at the end of the hearings? We have heard the last person. They walk out the door. It is the end of the first week in February. What happens next?

The Chair: I will let Anne answer that question.

Ms Anderson: The amount of time that the committee has allocated for hearings includes the amount of time you use for the report writing so that at the end of the three weeks the report is complete.

Mr Christopherson: So we do not have a full three weeks for hearings?

Ms Anderson: Not necessarily.

Mr Christopherson: What does this committee do from the end of the first week in February? What happens then?

The Chair: If I have read these reports correctly, there will be hearings and then there will be the writing of the report with the recommendations in the report, and then this committee will come back to consider the recommendations. Some of them will be unanimous, some of them will not be unanimous. Some members may seek to write minority reports; that is up to them. But if I understand this correctly—correct me if I am wrong—there will be a process where we debate the recommendations of the report.

Mr Christopherson: All that happens within three weeks?

The Chair: Yes.

Mr Christopherson: Then what picks up this committee again after that?

The Chair: I believe we revert to regular meetings during House sittings.

Mr Christopherson: Nothing happens, then, until the House sits. Then what happens? Are things referred to us from the House? Do we generate work? Or both? What do we do?

1750

The Chair: If I understand the reading of those rules correctly, the House may pass something and say the standing committee on finance and economics affairs will look at this, and we will. If they do not and if we have time, the steering committee or the committee as a whole can branch out and become independent and, if I understand this correctly, can look at issues of interest to the committee as a whole.

Mr Christopherson: I am sorry you have to repeat things but I would just like to get this through my thick head. At the end of the first week of February, this committee's work, for all intents and purposes, will end and nothing happens with this committee until the House resumes.

The Chair: Yes.

Mr Kwinter: I just want to elaborate. The committee meets with the approval of the Board of Internal Economy. What happens is that this budget goes forward and gives us funding to allow us to do what we do for that three-week period. When the House is not sitting that is the only time you can sit, because there is a financial cost to sitting, and if every standing committee in the Legislature went its own merry way, it is an open-ended situation and the costs are horrendous. As you can see just by this one committee for three weeks, we are talking \$70,000 or \$105,000 depending on the scope of what we are doing.

Once the House comes back into session, then on a regular Thursday basis this committee meets. It either deals with items that have been referred by the House—for example, every time a bill finishes second reading, if it does not go to committee of the whole it is referred to a committee and it could be referred to this committee. This committee then meets and deals with it. If there are no bills referred to it, it structures its own agenda. We sit down and as a committee say: "We should be looking at cross-border shopping. We should be looking at the impact of Canada-Mexico free trade." We look at all of these things. We do that as long as the House is sitting.

When the House adjourns again in the summer, we will be in exactly the same process as we are now. We will make application to the Board of Internal Economy to do whatever we are doing to have sittings beyond the time that the House is sitting.

Mr Christopherson: While the House is sitting, do we only meet on the Thursday?

The Chair: Thursday at 10 until noon and Thursday from 3:30 until six.

Mr Christopherson: The work we take on, then, has to be achievable within that time frame. In other words, you cannot meet more than that, but we could set aside a project and say we are going to do this in the next recess;

this looks like free trade or the implications of GATT or whatever. That can then become the mandate, as Mrs Sullivan said, for the recess period and we submit a budget for it.

Is it very often rejected by the Board of Internal Economy? Do they have final say? Do they recommend back to us what they would like to see or do they just decide?

The Chair: I cannot really comment on that, but I can say that this budget, as it stands now, seems to be considerably less than some of the other budgets from some of the other committees.

Mrs Sullivan: What they will ordinarily discuss in detail in relationship to the action of the committees, having sat on a board, usually relates to travel. If there are clear examples of travel that the committee has requested which the board does not think necessary to fulfil the mandate, it will likely reject the budget, which means that some of the activities of the committee that were put forward have to change. That is usually where the board would intervene in the activity.

Mr Hansen: There are a lot of new people on the block here. We are called seals out there, but new pups in here. I do not know whether you like being teacher or if we can meet with the clerk and discuss a lot of these things. I see Norm Sterling left, but I guess he did not leave just because he got bored. In a lot of these areas, there are a lot of questions. Monte, maybe you would like to get back to the House and listen to Norm speaking. If we spend all this time going over history, maybe we can get some history lessons—

Mr Kwinter: No, I think it is important.

Mr Hansen: If you do not mind. I just take it that sometimes you have been over this maybe 10 times.

Mr Sutherland: Can I suggest we get a vote on the budget? I have a sneaking suspicion that we are going to be called for a vote some time soon.

The Chair: We might need an amendment to this budget to include the contingency that Mrs Sullivan has suggested. Could we have a motion?

Mrs Sullivan: Did the clerk draft it?

Clerk of the Committee: Mrs Sullivan's amendment was basically to accept the budget as is, with an additional amount to be added by me to cover the cost that might be associated with the need for the committee to travel during its pre-budget consultations. As I indicated, I would not expect that would be more than \$10,000 or \$11,000.

The Chair: Is there any discussion on that?

Mr Jamison: You have a consensus.

Agreed to.

The Chair: This is starting to move nicely. There is one last piece of business. What we are going to do next Thursday? Does the committee feel the need to meet? Would you like us to invite somebody to come?

Mrs Sullivan: I wonder if it would be useful at the next meeting, perhaps in the morning session, if the research officers and the clerk reviewed the kinds of presentations that

were made to the committee in the last budget session. We all understand that the economic situation has changed since then, but it might be useful to have an overview of what the requests were and what the interest points were at the last pre-budget session. Additionally, we may want to have further discussions on the operation of the committee, such as we have had now.

Mr Jamison: We could try to evaluate as a committee the degree of importance one contributing factor may have over another and by that evaluate possibly some future direction on free trade, trilateral free trade, federal policy, whatever, that has an impact on the budget. Possibly we could define better our direction on where we go from the hearings stage, to prioritize what we want to talk about as a committee. It is important to know where we are going and it allows us all to do a little homework on our own, too.

Mr Sutherland: I do not want to totally toss aside Mr Sterling's suggestion. I do not know whether other members of the committee are interested, but I was wondering if we could get from research some basic background on other budgetary processes, of New York state, Michigan state, possibly Quebec. As far as I am concerned, maybe we need to look at other commonwealth jurisdictions, how you do it within a parliamentary tradition versus the state legislatures.

The Chair: Forget it. We cannot go to Australia.

Mr Sutherland: I realize that. I do not think we necessarily need it for next week, but maybe if research

could get that for us, it would help us establish some clear direction on how we deal with Mr Sterling's issue.

The Chair: We would like to meet next Thursday morning, and in this meeting we would like to have an education component from the researcher, we would like to have some kind of discussion about the direction of this committee with respect to this trilateral trade that Mr Jamison brought up, and we would like to have a continued discussion about the mechanism of the committee and how it works and how it can function better. If that is the agenda, then, did we want to meet Thursday afternoon of 20 December?

Mrs Sullivan: The House is supposed to sit till midnight that day, so we might as well keep it on the agenda.

Mr Christopherson: What we were talking about earlier was meeting in the morning session.

The Chair: Yes, the morning session.

Mr Christopherson: Now the suggestion is that we meet in the afternoon.

The Chair: We can determine that after the morning session, if we feel that an afternoon session would be worth while.

Mr Christopherson: Sounds good.

The Chair: Are there any questions or any discussion? Can I declare the meeting adjourned? Thank you very much.

The committee adjourned at 1800.

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Also taking part:

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Rizzo, Tony (Oakwood Ind)

Clerk: Decker, Todd

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LEGISLATIVE ASSEMBLY OF ONTARIO

STANDING COMMITTEE ON FINANCE AND ECONOMIC AFFAIRS

Thursday 20 December 1990

The committee met at 1008 in committee room 1.

ORGANIZATION

The Chair: The first item on the agenda is a briefing by Anne on the pre-budgetary consultations and some of those forecasters.

Ms Anderson: I circulated a memo which I hope you all have. It has some attachments of the witnesses who came in previous years. As well as talking about the witnesses, I thought I would briefly broaden that a little into more what happened before and afterwards, just to facilitate the discussion about witnesses.

On each of the four occasions it has happened in the past, the pre-budget consultations have begun with a background briefing by the Ministry of Treasury and Economics, looking at economic forecasts of things like growth in the future, both in the immediate year and in the medium term, unemployment, housing starts and other economic variables. As well, they have talked about the fiscal review for the last year, things like the distribution of revenue and expenses, how it has changed for different sectors, the debt situation, stuff like that.

Those briefings have taken anywhere between one and three days, depending on the questions in the committee. They have been based on this book, which was tabled in the past, called Economic Outlook and Fiscal Review. Previously it was tabled in about November and December each year. I understand that it is unlikely there will be one this year, but that the core information from it is contained in the booklet that was tabled by the Treasurer in December, called Ontario's Economic Outlook; the basic information is in there.

Last year, because the economy was starting to go into a downturn, the committee decided it would also like to hear from experts outside the government as well as inside; so it invited several economic forecasters from different organizations to come. Most of them were able to; there were one or two conflicts and they could not, so we ended up with five different experts, people from the C. D. Howe Institute, Wharton Econometric Forecasting Association, Data Resources Canada, and a couple of the banks came as well, to give a sort of background macro look at the economy and what they felt was going to happen in the future and what sort of actions they felt could be taken by government to work with that.

After the briefing from the ministry, they went straight into public hearings. I have attached a list in exhibit 1 of the witnesses who have appeared in front of the committee for the last three years. I would like to make a couple of points about those. If you look at the number of people who came and made oral presentations, there are usually about 40 groups that appear before the committee. The committee often allocates about half an hour per group for

both the presentation and questions. If you assume that the committee meets from, say, 10 to 12 and 2 to 5 each day, which is five hours, you can hear 10 groups in a day; so to hear 40 groups you could, if you wanted to, do it in four days of hearings. It is intensive but it is feasible to do that.

The other point I would like to make is to talk about the distribution of the groups across different sectors, because it is quite uneven. There has been a much stronger emphasis of groups from the education field, housing and people talking about the Social Assistance Review Committee report, and very little representation from, say, manufacturing or the auto sector, from retail, from business and industrial groups, financial services. That has a bearing when you come to write the report because of varying representation from members of the public. Sometimes, too, you can get representation from one group of an industry which does not necessarily give the committee enough information about the whole industry. For example, one year the only representation from agriculture was the beekeepers. It makes it more difficult to talk about agriculture when you have one.

The Chair: In the past, in order to get a more balanced view, has the committee invited different people to come and make presentations?

Ms Anderson: It has not done that, but that may be feasible. When you see the list of people who have requested presentations and you find that there are omissions in key areas, I think the committee could certainly decide, if that is what it wants to do, to invite other members.

The second exhibit also gives, briefly, the kind of issues that were looked at. It makes the same point, really, that it is an uneven distribution.

If the committee requests it, research often provides a compilation or summary of all the recommendations that come from witnesses. I have given you an example of last year's so you can see it. It is pulled together by different issues, so we can get all the recommendations people have made about housing in one place and all about education in one place. That sometimes can be helpful when you are going through the report-writing process, to pull it together. We try to do that pretty much on a daily basis so that as soon as the hearings are finished it will be available for committee members.

I do not know whether you want to go into the report-writing process at this point or whether you would like to wait for that.

The Chair: I think what would be useful is what we discussed that afternoon just after the subcommittee met, about time frame, about how you view the process and what would be best for you and what would make the best report possible.

Ms Anderson: In report writing, what tends to happen is that after the hearings are finished, the committee meets briefly and decides on an outline, the structure of the report, and gives directions to research of the kinds of things they would like to see in the report. Ideally, it is helpful if some of the kinds of recommendations you are interested in are also discussed then. That does not tend to happen very frequently, but it makes it easier to write the arguments for them when we do that.

Then there are a few days in which we draft a report according to the outline you have suggested. We would come back to you with an outline, with the text of the report but without recommendations. The committee goes over the text and then works out its recommendations, and we revise the text according to the recommendations, and it goes back and forth until either we run out of time or you are satisfied with what comes out at the end.

The report can be structured in a couple of ways. It seems to me that one way is to look at the big, overall issues, and another is to look at all the little issues that all the witnesses have brought up. That is something to bear in mind as we go through the hearings, what kind of focus the report could take. I think that is basically it.

The Chair: How much time do you need to write this? You made mention at the subcommittee hearing that sometimes it is due on the Monday after the Friday. What amount of time would give you the best opportunity to write a good report?

Ms Anderson: It is helpful to have several days from the time the committee has given its directions to producing the first draft. It gives us time to put everything together and it gives the committee time, too, to deliberate. There have been occasions when it comes out the day the hearings are finished; that makes it more complicated. If we can have a few days between, that would be helpful.

Mr Kwinter: I want to thank you for that overview and tell you that you have just highlighted the problem that Mr Sterling and others have identified and the great discussion we had the last time we met.

You really have to decide what the role of this committee is. If you take a look at the list of witnesses, you have a situation where one group is the Hockey Development Centre for Ontario; I have not looked through it that carefully, but it is probably the only one representing the recreational aspects of the economy. As it was pointed out, when it comes to agriculture you have the beekeepers. When you have almost an ad hoc list of witnesses, you are really bound by what they tell you. This committee reports based on the people who have come forward. If you have a very restricted or very narrow group of people, your report is going to be very restricted and very narrow. For it to be taken seriously by the Treasurer or anyone else presents a difficulty. Because one particular special interest—I do not use that in a negative sense, but it is a special interest—comes and puts forward its point of view and that is the only point of view we hear, we have to comment on it, it has to be included in the report—“These people came; here is what they said”—and the uninformed or the person who does not understand the process could assume that

this is what this committee is putting forward, even though it is just reflecting what has been presented to it.

1020

That was why there was a feeling that if we had some way of structuring, maybe the sectors in the economy that impact on the budget—I did not get a chance to speak yesterday on interim supply. I was all geared to go but it kept going on and on and I had other obligations. But let's face it; there is very little in the way of flexibility for the Treasurer. There is a misconception people have that the Treasurer sits down and in his wisdom dispenses this \$45-billion budget. It just does not work that way. With all due respect to all of us, there is no one here who has that capability, including the present, the past or any Treasurer.

What happens is that the Treasury people come forward and say, “We expect the revenues of the year to be X.” It may be \$45 billion. Where they got into trouble this year, and it is something you cannot fault them for, is that their expectations were too high. They did not anticipate and no one anticipated that the economy was going to get as depressed as it is. So their revenues are not what they expected. Generally, they say: “Here is what your revenues are. We think all the corporation tax, the transfer payments, the personal income tax, the sales tax, all of these things are going to generate \$45 billion. Now here is what you must spend.”

You have no choice unless you decide you are going to shut down the schools, the hospitals, all of these things; and without being partisan—who knows?—you may. If you do that you may be able to restructure the budget, but basically you are committed. I cannot believe you are going to shut down schools and hospitals and community and social services and all those things.

Then what happens is that you get \$43 billion. I do not know the exact figure, but it is in that range. You get \$42 billion or \$43 billion that is committed. You have no choice, you cannot do anything about it, that is gone. You have to pay interest on your debt. The debt of the province is in the \$40-billion range. You have to pay that.

Once all that is done, you now have some flexibility of maybe \$3 billion, \$4 billion, \$5 billion tops. That is all you have any political control over. As a politician, you decide what you want to do with it. You can decide you are going to pay down some of the debt, as we did last year; we paid down nearly \$500 million. You can decide you are going to balance the budget, which means you will only put in programs that do not exceed what you are going to take in. You can decide you want to prime the pump and want to run a deficit.

That is where the Treasurer has some leeway. He can sit down and say, “Based on what we as the Treasurer and the cabinet have decided, we are going to spend that kind of money.” It seems to me that what we should be doing is addressing those sectors that can impact on that discretionary amount of money.

Let's face it. Again, without being partisan, the Treasurer is really hamstrung when it comes to what is happening in the hospitals. He has said that. He has a certain amount of money set aside for the hospitals and he cannot do too much about that, because right now it

occupies fully one third of the total budget and if he puts that out of whack, everything else is impacted by it. It is not open-ended. It is not as if he has an endless amount of money that he can spend anywhere he wants to.

It would seem to me that our time would be better spent that way instead of just open-ended, where anyone who wants to can come and talk to us and we get a report that is going to be just a make-work program. It is not going to be terribly effective, because, again, with all due respect to the beekeepers, they do not have the total aspect of what is happening in the agricultural field; as a result, the agricultural sector is going to be sadly under-represented. Instead, we might want to invite some of the umbrella organizations of agriculture to come forward so they can give us the broad overview of what is happening to agriculture; or what is happening to the manufacturing sector, what is happening to education—because they are a key user of money—what is happening in the health field, what is happening in community and social services, all the social service agencies, the places where the government has some flexibility to spend that discretionary amount of the budget that is not committed.

Then we could be participating in a useful exercise. It may be too late this year but at least it would get us on the track where we were dealing with a major part of the people who are going to impact the economy. Once you get them covered, then of course you let anyone else who wants to come in; I am not trying to shut out anybody from coming. But if we get a balance so that at least the major players have a chance to make their views known, then it is almost like commentary by individual groups: the hockey association comes along and wants to talk about its particular issue and the firefighters want to talk about their particular issue, and you let them have that opportunity and there may be some interesting things that come out of it.

But if you cover the main sectors, I think it would be useful. As most of you are new to the process, you would get a pretty good overview of the economy of Ontario, where the pressures are, where the flashpoints are, where the areas are that really have to be addressed, because, quite frankly, everybody wants more money. There is nothing revolutionary about that. Every single person who comes forward will be putting forward his case as to why he should have more money. Politicians, being what they are, love to give money. One of the greatest things I loved to do as minister was give people money. It is great. Who is ever upset with you when you give them a cheque? The trick is how do you not give somebody money? How do you say no to somebody who comes forward and has a very compelling case: "Hey, you know, we've only got so much and we can't give it to you." There has to be a system of prioritization, and in order to be able to prioritize you have to have information, a really solid overview of what is happening in the economy, where the danger points are, where the future concerns are going to be and what is going to be best to keep this province where it is now as the leading economic sector in this country.

Mr Phillips: If you are looking for input on how we would like to proceed, I guess the subcommittee will make

the decision or at least will recommend to us what it thinks.

The Chair: If I remember the motion passed last week, the subcommittee will decide on the first five days of hearings and then the committee as a whole will decide on the next process in the hearings.

Mr Phillips: What I would like to see are four or five groups the subcommittee would look at that would give us a kind of overview. Last year, I gather, it was the Ministry of Treasury and Economics and then a couple of banks and then a couple of think tanks. I think there should be a diversity. That would be helpful for me, if perhaps the first day we have the Ministry of Treasury and Economics and then three or four the subcommittee feels are thoughtful groups that can scope out their vision of what we face economically.

Then, as my colleague says, as you go down the budget 51% of it is the ministries of Community and Social Services and Health. That is just reality. You can find in each of those probably about five umbrella groups that we would clearly want to come here to give us their visions. Then you get into the ministries of Education and Colleges and Universities, and there are another three or four groups. You get 90% of the budget represented by about six ministries, and I think the subcommittee can agree on who are the key players.

I would also not mind hearing your agenda, whoever is knowledgeable about how the agenda was put together, because it is what is going to drive us. In the back you have revenue forecasts and expenditure forecasts, and it may be very useful for all of us to know the basis on which that was arrived at. For me, at least, that would be another helpful background. As I say, this is going to be the agenda that will drive all of us over the next few years, so I would like to hear the basis on which that was arrived at.

I think it is also important for us not to look as if we are excluding people, so I am prepared to listen to fairly wide-ranging groups. I think there is a limit to it. Beekeepers may be important, as the subcommittee determines, but I think you will want, if we have more than we can handle, to make sure that people do not feel this Parliament or government is exclusionary. I do think we have to be a little careful, because we want a little thinking time as well. But I am prepared to listen to a fairly wide-ranging group, provided we have the overview, provided we have agreed on the key ones to come here. As I say, I think it is the diversity, because you are going to find in each sector quite a range of opinion; for example, between perhaps the nurses and the hospitals and the doctors. Each will have a different view of health care.

That is what I would like to see: start with as broad an overview as we can with a good cross-section of opinion, then the key groups that have the key impact on the budget. Then, try and not be exclusionary. You may have to say to some groups, "We'll try and work you in, but we certainly want your written opinion that we will look at." I would like to have somebody who might just scope out for us the basis on which these were arrived at, because I think that will drive us very much.

1030

Mr Hansen: Taking a look at the past, 1988 and 1989, as Mr Kwinter has already mentioned invited witnesses, I have to go along with him. It looks like it was more successful in 1990 with the invited witnesses to participate, to give an idea of the economy.

On some of these other groups like the beekeepers—we keep talking about the beekeepers—I would say that if a group like the Ontario Federation of Agriculture wants to make report and we have a long list and cannot fit everyone in, we ask the beekeepers to get involved with the OFA and include it in its report. I do not know if that has been done in the past. I think we still have to listen to everyone, but I think we can group them if there are too many on the list. Has this been an experience in the past where the list has been too long to hear everyone? It has been cut short? Okay. We will have to take a look this year. Because of the economy, there might be a lot more groups out there looking for funding.

Mr Sutherland: I just to want make the comment, looking at the list, that I agree with the sentiment that we need the overall, broad groups, the representative groups, but I would hope we might be able to invite a few individual groups. I see that last year you had a board of education, you had a specific university student union. I do not think I would necessarily want to hear from the same ones, but I would not mind possibly hearing from some different ones in the same area. I know what the broad overview is, but I would like to have one of the individual groups here to tell us so we can see what the direct impact is on their specific area. I think that would be beneficial to us as well.

Again, that may take a little urging from us to approach some groups. I do not know whether that is within our resources and ability to do that or whether recruiting specific individual groups is also a mandate that this committee has done in the past.

The Chair: I think we have the mandate to invite whomever the committee feels is important for us to invite. I do not think we are restricted in any way.

Mr Jamison: My personal opinion on how we should approach this—do we invite or sit back and wait for presentations?—is that we should really look at the umbrella groups out there. Just scanning the 1988, 1989, 1990 invited groups, I think we probably could have done a better job and can do a better job; looking at the OFA, an explicit invitation to that group to make a presentation, because I think they are representative in an umbrella way; the various sectors, of course: the banking community, the labour community, people who really have a general point of view to represent. Those points of views may be diverse, but without having that input—

I think Mr Kwinter is correct in saying that we can accomplish much more than has been accomplished through committee in the past by looking at ensuring that those types of groups are here to make a presentation. That may mean the subcommittee has to go out of its way to get a cross-section of people together initially to make presentations to this committee. I agree that many of us are new

here, and it will give us the ability to understand the concerns of the various sectors. But I think that is a crucial job that has to be done to allow us to function, because our function is to listen and report on what we hear to the Treasurer. That is as simple as I can put it. We should be looking at inviting a cross-section of presentations from the broad scope of the concerns that are out there.

Mr Christopherson: I do not have anything different to say with regard to who should to be invited. A lot of it is just common sense. We want to make sure there is a cross-section, that everybody has a chance, and look at it from all the perspectives that are expected in society today by the public.

The only thing I would comment on is, Mr Phillips mentioned having some research done vis-à-vis An Agenda for People. My concern with that is that I sense the potential for partisanship becoming involved in that kind of research. I have said it before: I intend to work very diligently to maintain some continuity and consistency in my approach that at the committee level we should try as much as possible to be non-partisan. Ultimately, it is going to be there, it is a reality. But I think that is a little problematic, for obvious reasons, and I think something needed to be said there.

I have no problem with everything else that was requested in terms of information. In fact, I look to the members opposite, having been here for a number of years, in many cases in leading cabinet roles, for their leadership in assisting us who are new in walking through this process and making sure we look at the appropriate things. The Treasurer, when he was here, indicated that he has a strong desire for more participation by members of the Legislature than there has been. I think that has to start right here with our group, and I sincerely look forward to the example and leadership that those in the opposition can provide. But I think it is incumbent on all of us to check each other when there are little indications that something is not quite consistent with that and more falls into the partisanship line.

I understand what the argument was and I know what the retort is going to be: that this is what is driving the government and therefore we should be looking at it. Quite frankly, I do not see it the same way. To take any party's platform and bring it to committee and say, "Now we're going to have this dissected by the various Treasury departments and people to find out where it came from"—I would doubt very much if any Treasury people had any input, as we were not government. They were probably taken from reports that exist and projections that our caucus members were able to pull together. I suspect we may have a differing opinion on that. I hope we do not get too lost in it, but I am a little concerned. Other than that, I think the advice and suggestions of Mr Kwinter and Mr Phillips have been very well taken. My colleagues are expressing the kind of commonsense approach I am very supportive of and that I am sure the entire Legislature would appreciate.

Mr Kwinter: I want to respond to Mr Sutherland, who is not here at the moment. I just wanted to make sure

there was no misconception. My feeling is that this should be as open-ended as possible. I have no objection to any individual group coming forward. My only concern is that I do not want them to drive the agenda. I want to make sure we have this broad overview and then supplement it by them. I do not want it to appear that our report goes forward and we are having someone make a presentation that is perceived to be all-encompassing for that particular sector when in fact they are a very narrow part. I have no problem at all with anybody at all coming forward and making presentations as long as we structure it in such a way that we get that broad overview as well and primarily.

1040

Mr B. Ward: That is the question I have. How are we going to decide which umbrella groups to invite to give presentations to this committee? Looking at the list of organizations and individuals that have been here in the past, I can think of some right off the top: the Ontario Chamber of Commerce is a natural, the Ontario Federation of Labour is a natural, and the Ontario Federation of Agriculture. Then you get some of the other groups like the Ontario Real Estate Association. Is it an umbrella group or does it fall under the chamber of commerce as a business group? Who is going to decide what umbrella groups we should be inviting? I agree that we should get a broad picture of what the business community thinks, what the labour community thinks, the direction Ontario should take next year and in future years and then invite the other special interest groups to get their specific concerns addressed to this committee. I am just wondering how we are going to decide who is an umbrella group and who should be a special interest group. Looking at the list, we could be tied up listening to umbrella groups in the short time we have as a committee here.

The Chair: I just did a quick inquiry. In the first five days, if we sit from 10 until 12 and then from one until five, we have approximately five or six hours a day. At five days, that is 30 hours. If we gave each umbrella group one hour, which I understand is a lot of time, that would be 30 groups. Then we still have another week of hearings, another 30 hours of hearings, and then the possibility of another week travelling somewhere to listen to more hearings. I do not think we are going to be—

Mr B. Ward: There is no concern about a lack of time.

The Chair: We have report writing. We want to give Anne lots of time to write the report. What I am hearing, and you can correct me if I am wrong, is that we would like to hear overall groups and that perhaps the first invitations of the overall groups could be done by the subcommittee to establish the first four or five days of hearings; from there, the committee will determine who else it will listen to and who else it will invite.

Ms M. Ward: I would like to comment on the invited witnesses. I guess that is what you are talking about as the umbrella groups and so on. Looking at last year's, the summary provided here, under the economic outlook and fiscal policy section it does not seem to me there is much balance. My concern is that among those groups there be a

broader balance of opinion. Likely the Bank of Nova Scotia, the Canadian Imperial Bank of Commerce and the C. D. Howe Institute would present fairly similar views. In the section where we have the summaries, the majority of points seem to come from the Howe institute. I would like to see a balancing point of view which is not quite so right-wing.

The Chair: I would interject, having read all of their forecasts, that they may come from the same part of the spectrum but they sure did not agree on what was going to happen. But that was maybe some other comparative analysis of the forecast.

Ms M. Ward: Recommendations.

Mr Hansen: What Ms Ward said there, I sort of agree that we wind up. We have the Bank of Nova Scotia, the CIBC. I think if we are calling more different areas, like the OFA, to come in to give a report—another thing I would like to see, and I do not know if it has been done in the past or the procedure is being used, is that we have the invited witnesses first to actually give us an idea of the general economy out there and their input before we start hearing the oral presentations. Has that been done in the past, or are the invited witnesses filled in in between?

Ms Anderson: Last year the Ministry of Treasury and Economics was first and then the others were filled in in between.

Mr Hansen: I do not know the opinion of the rest of the members here on getting a broad view before we meet with any other groups. I feel that if we are meeting with some of the other groups who put their opinions forward, maybe we have made our minds up who the six groups or invited guests may be. That is wrong too. My feeling is I would like to hear the outlook first and then take a look at the groups after and come to decisions after that.

Ms Anderson: I think last year they intended to do that but there were often scheduling conflicts with the groups they invited, so it ended up that they were interspersed.

Mr Hansen: So they had the same idea but it just did not work. Let's try it again.

Mr Phillips: I agree totally with there being a range of opinion in the spectrum. I think I said that in my remarks. I think we all have to feel comfortable that we have a variety of opinion. The reason, Mr Christopherson, why I keep referring to An Agenda for People is that this is the blueprint. This is what we all have to work on, because that is what is going to be implemented over the next five years. We cannot ignore that and all of our considerations have to take that into account because all those things have to be funded.

If you do not want to bring in the people who prepared it—I did not say we would do research on it, but somebody has to make sure we understand what is meant by things in here, like the 60% funding for education. I assume, I guess, you people can answer it. We are not going to be able to ignore this document, because that is what has to be implemented. Certainly for me, as we go along, it will be, "All right, how is this going to be done?"

I have to keep it personally front and centre, so if you do not want to have the people who prepared it in detail here, I will just count on the other members knowing what is meant by it as we plan how it is going to be funded.

Mrs Sullivan: Just a couple of things. I apologize for having had to come late to this meeting. I wanted to just raise a couple of things. The economic witnesses who are listed in the invited section, the Bank of Nova Scotia, the CIBC, the C. D. Howe Institute, DRI and WEFA, tend to come to the committee if the committee wants them to, and to my mind it would be valuable this year to present an overview of the economic situation and the projections for the next period of time. Those projections will vary. I think when they do come, because of the different analyses that they use and whether they are looking at a shorter or longer term, you will see significant differences in some of their presentations that may be useful to the committee in exploring with them.

It is also useful to committee to have the economic witnesses, the analysts and forecasters before us, to see their predictions and projections and place them against those of Treasury and Economics, on which the budget is based, because Treasury does its own economic and econometric projections. It is useful to see if they are in line with the overall average or view of the other major economists in society.

One of the things I was surprised at, and it might be useful to think of this in terms of the committee, was that I did not know, for instance, that the Ontario Federation of Labour had a new economics division. They have not been included in our economists who have been coming before the committee. That might be useful. We may want them to do two parts to their presentation when they come, one seeing where they come from in terms of their economic projections and the other in terms of the other issues they are looking at in terms of the budget.

1050

One of the things that I think we will find is that the MUSH sector—I do not know if you are familiar with that term, but it is basically the transfer agencies, the municipalities, the schools and the hospitals—will come. Their umbrella groups will come. Whether they are invited or not, they will be anxious to appear, so that will cover several umbrella organizations. And this year I would suspect the Ontario Federation of Agriculture will be very anxious to appear, because the situation on the farm and through that whole sector is very seriously depressed.

Last year, if you look at the list, you will see that there were different organizations that wanted to appear, in the experience of this committee doing pre-budget consultations. Really, the ones who want to appear are reacting to what is a current situation in the economy. We may even well see people who would respond to an invitation or to an advertisement this year who have never responded before, simply because things in the economy are different and there are different pressures.

The organization representing alternative and independent schools was here three years ago. I do not know if they were a factor in your riding, but they were very active

in my riding, wanting extension, by example, of provincial financing of alternative and independent schools. They may well want to be here this year, because they have become more active. They see the committee as a place to put their position forward.

There will be others who may not be interested in coming. The natural gas association may not be interested in coming this year because some of its concerns might be dealt with, say, in the Ontario Hydro environmental assessment process.

In addition to the major umbrella groups, and I do not know if you would have recommendations of other groups and organizations that you can suggest would reflect the current economic situation for special invitation, but I think that what we will see are the people who have an interest that is particular to this time will be coming forward in response to the advertisement.

Mr Jamison: I believe that probably will happen, but at the same time, I think it is incumbent upon ourselves to really look at trying to get as much of a cross-section of the community out there as possible. By that I mean the umbrella groups that are out there and have a great deal to contribute.

As I look down the list on the oral presentations, there is a great deal of overlap, there are probably some groups that did not make a presentation that we might be interested in. In expanding the invited witness list, I think we are going to be much farther ahead as a committee, especially with so many new people on the committee itself. We are really gleaning as much information as we can. I mean, for some people who sat on the committee before, it is probably going to seem repetitious, but again, we are looking at where we are economically now and where we are going to be in the future.

Mr Phillips made a comment that we should probably design our references to the Agenda for People. This is a committee of the House and I think that is secondary to really getting a grip on or feel for the economics of the situation. I understand what you are saying as far as that being the driving force behind this government, but I do not believe that is the specific job of this committee. I believe that the specific job of this committee is to try as much as possible—and certainly everyone's crystal ball may read differently at the end of the exercise—to get a handle on not only where we are today, but where we are going to be a year or two down the road and try to devise and propose to the Treasury a course of action that we can take to assist in the meantime.

That is why I have been very much in favour of Mr Kwinter's proposal, and that is to ensure that those umbrella groups—you have made reference that in the first week we may be able to fit in 30 if we give the presentations an hour each. You may be able to fit more in. But I think if we evaluate—and I believe this is what we did at the last meeting. We gave a mandate to the subcommittee to evaluate that in particular. I do not think it is worth while rehashing and rehashing that.

I believe that we should move on from here, that the subcommittee should look at putting together that list on the basis of trying to get the umbrella groups covered and

go from there. I do believe that we are going to receive an extended list of people this year. It is my own feeling that there are going to be people out there who are going to make presentations who have never been here previously. That is why I believe it is very important to do that initial job of expanding the invited witnesses list and allow this committee to get on with the job in a more efficient manner.

Mr Sutherland: I do not totally remember the entire mandate we gave to the subcommittee, but there seems to be a general consensus about the groups we want to invite, or that we want a broad scope. So I am just wondering if it is not impinging upon what is given to the subcommittee, which I believe was correct, the first five days. Did we give the subcommittee the mandate to select the groups for the first five days?

The Chair: I believe that by consensus of the committee we can further refine the directions to the subcommittee. It has been suggested that one of those possible refinements could be that each party go back and decide three or four umbrella groups that it really wants to hear from and make sure that invitations are put forward. Then if I am reading the sentiments correctly, at the next stage anybody who has missed out or anybody else who is on the list can also be included at the wish of the entire committee as a whole. But I am getting this consensus that we want to have umbrella groups, that we want to have an overall picture of the economy, that we want to include as many of the umbrella groups as we can and that we want to have them early on so that we can have room to manoeuvre.

Mr Sutherland: And that is the subcommittee's mandate, though, based on what we have said so far. Correct?

The Chair: This is what I am hearing.

Mr Sutherland: If that is the case, could we move some of the discussion to the dates we are going to meet? Just from the pure practical standpoint, we all have other obligations, constituency obligations, and we cannot really go ahead with any of those, that type of planning, until we have some concrete dates as to when we are going to hold hearings.

The Chair: We do not know the dates. The party whips have to get together to determine what dates this committee is going to sit. There is some degree of discussion that is being carried on there.

Mr Sutherland: Okay. Sorry, I did not realize that process was left with them because it directly affects us and what we are able to do in our own constituency.

Mr Kwinter: The three weeks for the committee have already been assigned.

Mr Sutherland: Oh, it has; sorry. I missed that, my mistake.

Mr Phillips: The weeks of 21 and 28 January and 4 February.

The Chair: That is information that I have not had either.

Mr B. Ward: So I understand it is consensus that we are going to go back to our respective parties to prepare a

list of what we think are umbrella groups and submit them to the subcommittee. I am sure that will get overlapping from all three parties, but perhaps the Liberals can think of somebody we did not or we will think of someone that the Conservatives did not, and then the subcommittee would set the schedule for those groups that are submitted on those lists. Is that going to be the way the subcommittee works? Then they will set up that first week, the schedule of all those umbrella groups that have been requested from the respective parties.

1100

The Chair: My sense is that from the amount of time we have and from what I have been hearing, we will have a lot of time to hear everybody, but what I am also hearing is that if there are specific groups that we really want to hear from, then let's get those names to the subcommittee so that they can be invited in the first round of meetings.

Mr B. Ward: Okay; good.

Mr Kwinter: I want to respond to Mrs Ward about her comments about the invited groups being right-wing.

The point is that with the people you want to get, you cannot get enough of those people and it has nothing to do with politics. The only area that politics enters into is on the spending end or on the revenue end and taxation end. You have control over that. You can decide you are going to raise taxes or lower taxes and that will impact on your revenues.

But the problem you have is that your spending is a direct function of your income. If the Treasurer has found that he has a \$2.5-billion deficit right now, he would have had a greater deficit other than that he got windfall revenues from the federal government. Otherwise it would have gone up and he has already admitted it will probably go up next year. So what happens with your revenues directly impacts on what happens to your expenditures.

The problem you have is that everybody does his forecasting in a different way. It is not a science; it is an art. You sit down and you try to anticipate to the best of your ability what your revenues are going to be. Now the Treasury people last year in their advice to the Treasurer, whoever he may be—and it does not matter what party he is from, he is a politician; he goes in there and they say to him, "Mr Treasurer, here is what you can expect your revenues to be." He then makes the decision how he is going to spend it above those that are already committed, and he decides whether he wants to balance it or whether he wants to go to a deficit or whatever it is. That is the only leeway the politician Treasurer has.

It is absolutely critical to anybody who is formulating a budget to have as precise a number as possible as to what his income is going to be. As I say, except for tax policy, which—and I can tell you quite frankly, when we were in power, the Treasurer found that he had a shortfall of what he wanted to spend and he had to generate it somewhere and he raised the sales tax from 7% to 8%. That was done because in his opinion that was the fairest and most equitable way to get the kind of revenue he needed. Those are political decisions. But the banks and these think tanks are not talking politics. They are talking about what they think

is going to be their expectation of what the economy is going to do, and what the economy does impacts on what your revenue is going to do. If they say that there is going to be a recession and your revenues are going to fall by so much whether you like or not, that is important information.

The Treasury people come up with their estimate, the banks come up with theirs and they vary. Every year I used to go to the annual forecast meeting of the Bank of Montreal and they would say, "Interest rates are going to drop to 7% or 8%," and everybody would go out and say, "That's great," and the interest rates would go up. They were wrong.

What happens is that the more people you hear from, the better handle you get. You can take a median and you can suddenly question them. If the Bank of Montreal comes in one day and says, "We think interest rates next year are going to drop and go to 10%," and the CIBC comes in the next afternoon and says, "We think interest rates are going to go up," you say, "Well, how come another financial institution says they are going down and you say they're going up," and they tell you. They say, "Well, we don't agree with what they're saying." So you cannot get enough of that information. It is not such a thing as saying, "We are getting too much of that." You cannot get enough.

Now if someone gives you gratuitous advice as to what to do with your taxes, that represents either a right-wing or a left-wing or a centre philosophy, but that is not something we are really looking for. That is the politicians' decision. I used to tell my officials when I was in the ministry when they came forward: "Don't play politician with me. Give me the facts. We as the cabinet will play the politician. We will make the decisions. But we have to have the information on which to base those decisions."

As I say, you cannot get enough of that information. It is absolutely critical and because it is not uniform, every one of these guys—the Treasury people have one attitude or one projection, one bank will have another projection, C. D. Howe will have another projection, and what you are trying to do is you are trying to say: "Okay, here is the worst-case scenario. Here is the best-case scenario. Hopefully, we will be somewhere in between. Where do you think we are going to be based on all of this information? Let's make our plans accordingly."

There is the other thing I want to caution you about. Just to give you an example, in the 1990 list of witnesses they have the Canadian Automobile Association. You might think that represents the automotive industry, which it does not. It is very important that we do not get sort of deluded into thinking, "Oh, there is something that says automobile so the automotive sector is heard from." It is absolutely critical in my opinion, because the automotive sector is the most important sector we have in the manufacturing industry, that we hear from at least one of two organizations.

One is the Canadian automobile manufacturers' association. These are the guys who build the cars and they are the guys who create all the jobs. Second is the Automotive Parts Manufacturers' Association of Canada,

which is even bigger as far as job creation and the economy of Ontario are concerned. These guys are absolutely critical because the largest number of manufacturing jobs in Ontario is directly related to the automotive sector. It is sort like how goes General Motors, that is how goes the province. As it turns out it is not exactly General Motors any more, but it is all of those guys.

I just want to make sure, and this is the job of the subcommittee, that we get the right people, the people who can really tell us what is going to happen and not just sort of get fooled by some organization that has a key name in it so that you think, "Okay, that sector is covered." I just want put that out as a caution.

The Chair: We are going to be heading back to the House in a few minutes because David is winding up on his presentation.

I was just consulting with the clerk and in order to make sure that we have a wide presentation, I asked if it was possible for us to include in the advertisement that all written submissions should have a précis of the groups that are being represented by the umbrella group listed, so that we have an idea. Does the committee think that would be worth while including, to go ahead with that change to the advertising?

Mrs Sullivan: I would not include it in the advertisement. They will be in touch usually with the clerk and you can provide them with the information on the requirements relating to their presentation at that time. It just adds to space and so on.

The Chair: Then what he would do when they contact him is say that a statement will be sent in and we will have that.

Mrs Sullivan: Yes.

Mr Christopherson: I will try to be brief. First of all, we spent an awful lot of time really going in a lot of circles. We talked about most of this stuff at the last meeting. I do not know that we are breaking any new ground other than with regard to some of the specifics of where some of the broadening should take place. I hope at some point we are able to pull it together and get a focus.

The Chair: The rules of the committee, as I understand them, allow people to have their full say. At some point I could cut it off. I would rather not do that. I would rather that everybody have his say.

Mr Christopherson: Do not misunderstand me. I do not expect you and I am not asking you to arbitrarily step in. I was asking you to provide some focus by way of suggestion.

The Chair: We are getting close.

Mr Christopherson: It was not criticism of you. It was just that I think, for all of us, that we are redoing the meeting we had last time.

I again go back to where Mr Phillips was on Agenda for People. I still do not agree with that. I am not convinced at all. I really see that as a partisan kind of thing and I think he knows that. I think that is the opposition's role and responsibility, to take the Agenda for People and do what it will with it in terms of costing and analysing it

and then comparing it to our budget, comparing it to our programs, comparing it to our expenditures and holding us accountable in the House during question period and at other times. That is what that is for and I do not think that is what this arena is for, at least in my understanding of it right now.

Also, to comment on Mr Kwinter when he was responding to some of the comments of my colleague Mrs Ward—

1110

Ms M. Ward: Not Mrs; sorry.

Mr Christopherson: My apologies, Ms Ward.

Mr Kwinter: My apologies as well.

Ms M Ward: I did not even catch that.

Mr Christopherson: And I was following your lead. See, maybe I should learn.

There is where we have to draw the distinction. I guess it is maybe more philosophical than partisan perhaps, but I think you will find that my colleagues and I do not necessarily consider broad-based, differing perspectives coming from the different banks—granted, they may have different opinions, but we do not necessarily see the fact that we brought the CIBC and the Royal Bank and the Bank of Montreal in to necessitate having heard three completely different perspectives that kind of sum up the whole economic situation.

I had the opportunity to sit in with the Treasurer at a meeting with the chairmen of six of the national banks within the last week, and as fascinating a meeting as it was, there was obviously a philosophical consistency to their thinking, which they acknowledged and the Treasurer acknowledged his. It was all open and frank. But that is not the kind of diversity we are talking about. We would be talking about hearing from the banks and hearing from C. D. Howe, of course, all of those organizations, but also from credit unions, the Ontario Federation of Labour and the Ontario Federation of Agriculture in terms of their economic perspectives.

Where I disagree with Mr Kwinter's assumptions is that while you can be very accurate in terms of tallying things that have already happened, there is a great diversity of opinion as to what will stimulate what in the economy and what kind of results you will get. It is the foundation of most of our philosophical disagreements. So I think that we might see a much wider definition of "broad-based" than your comments suggested. I think that Ms Ward was reflecting on the fact that we would like to see the ideological and philosophical base as broad as possible, as well as hearing from those professionals acknowledged as being the leading economic thinkers who get the coverage in our mainstream society.

I think it is important that we remember that we went through the whole discussion of process already. I do not think there is any change. We had some differences. We found some common ground and that is where we cut it. The subcommittee would decide what the schedule was at its pleasure for the first week. It would make a recommendation to us after the first meeting for the balance of the two weeks. We would then collectively decide whether—I

think "subject to the approval" were the exact words, with the understanding that if somebody wanted to add or make any changes, then they had that opportunity and the full committee would adopt the agenda for the last two weeks.

I do not see any need to rehash that. I thought that was a fair compromise in terms of some of the differing viewpoints we had about process. The idea of each of the three parties having an opportunity to submit two or three to the subcommittee for that first week I think is a good refinement of that, but it does not change that basic understanding. I think that pretty much covers everything I had to say.

Mr Hansen: The one thing I would like to know is when we are going to be picking these invited witnesses. I would say that it has to be done before we go home this weekend to give them some lead time in order to prepare a report that would be focused on what we are looking for. So at 3:30—would that be too short notice?—the three parties could come back with invited witnesses.

The Chair: Maybe we could come back and determine a date that we are going to have early in the new year to have the subcommittee meet, or the subcommittee could meet at 3:30.

Mr Kwinter: Can I make a suggestion? This ad is going in the first week of January; in your experience, how long does it take to get responses?

Clerk of the Committee: Some responses come in immediately. In my experience the bulk of the responses usually flow in within the first week after the ads run.

Mr Kwinter: Maybe what we could do to facilitate it, so we do not have double work, is run the ad, see the responses and then take a look at it. We may get a lot of the people we want to invite in those responses. Certainly, we may get enough to get us going in the first week, and then once we see where there are some holes, where we are not getting representation, then we can go out and invite those people. We may come up with a list and every one of those people are going to respond anyway. If you take a look at the past list, you will see the OFL is always there, the OFA. Once we know they are there, we can put them in, and we can sit down and see where there are some holes, areas where we do not have adequate representation, and make the decision then.

Mr Hansen: One thing I was looking at is the Bank of Nova Scotia or CIBC. I look at the previous years. They were not invited in 1988 or 1989; they have not given an oral presentation or a written one. This is where you are looking at the economic picture. The other people coming forward with oral presentations and written submissions seem to be, as people have been saying, from umbrella groups throughout Ontario. I think it is important that if we are going to invite the Bank of Nova Scotia, it has some lead time to prepare. That is why I was getting to the point.

The Chair: These banks and think tanks do these kinds of projections on an ongoing basis. They do not need as much lead time, because they publish them, they send them out to their shareholders and so on. They can come in, I think, on pretty short notice and do a presentation. That is just from my own perspective.

Ms M. Ward: I wanted to clarify, responding to Mr Kwinter's response to me. I realize quite well that projections are not something that is political opinion, although one can certainly bias models one might use to do those economic projections. That is not what I was talking about when I was talking about right-wing and left-wing. I was talking about the recommendations you end up with, for instance, from the C.D. Howe Institute: "Government should not employ discretionary fiscal policy to stimulate faster economic growth in 1990-1991." That is where I would like to see a broader range, because those recommendations are what you end up with and if you only have one particular range of views it limits the options that people see available. So I was not talking about a prediction of what is going to happen in the future economically as being a right-wing or left-wing view. I felt that you thought I was viewing it that way. That is not the case. It is the recommendations that I would like to see a broader range of views on.

Mr Sutherland: It is my understanding that we have the weeks we are going to meet in but we do not have the exact dates set, how long we are going to give each group and whether we are going to sit from 10 to 4 or from 10 to 5. I would like to have that information decided today so I can plan around that for constituency obligations I may have.

The Chair: As I drew a line under your name, you have the last word. As that was the last word, can we move on to that item? Do we have a consensus of 10 to noon? Everybody agrees we will meet from 10 to noon, Monday through Thursday. Do we want to include Friday? Friday is usually a constituency day. What is the feeling?

Mrs Sullivan: I would suggest that we plan to meet from 10 to noon and then from 2 to 4, unless we or the subcommittee decides to extend those sittings based on the number of groups or witnesses who want to appear, and that the decision relating to Friday sittings also be based on the number of groups or individuals who want to appear. It is not unusual for committees to sit on Fridays. It does make it difficult in terms of scheduling constituency days but it is not unusual, and the groups and organizations are certainly willing to come in on Friday as long the members are here.

1120

Mr Sutherland: I would concur with that except for Mondays. Could we not skip a morning session and start at 1 pm on Mondays?

The Chair: What is the feeling on that? I know some people have to come from a distance; others are not so far.

Mr B. Ward: I would suggest that the first Monday we meet at 1 pm. Again, it is how many groups or organizations want to give presentations. We want to listen to all if possible. If the numbers are there that we have to meet Monday mornings, then we should. But I would suggest for the first Monday that we meet at 1 to allow the people who have to travel quite a way to leave their homes at a decent time. I would also suggest that we exclude Fridays, mainly because that is my constituency day. However, if the numbers are there, then we should include

Fridays. For the first week, Monday at 1 and exclude Friday.

Mr Hansen: I had the understanding at the very beginning when we approved the budget that we had three weeks of meetings, 15 days, that that is what we approved. Now we are changing that budget?

Mrs Sullivan: You do not have to spend it.

Mr Hansen: It is not that. You know, you have it in your mind already that you approved the budget, that you are sitting for five days a week for three weeks. I know what I do down in my riding; I just schedule the Saturday morning if I have to meet with people. It depends on the number of people we have coming forward to have presentations that will generate exactly how many days we are sitting. We have budgeted for 15. If are cutting back now and then we have more groups, then we have to change again and go back to 15 days. Maybe we should make it straight now. We will look at the 15 days. If we can cut back, then we will cut Fridays and Monday mornings or whatever. Most of us on this committee are within driving distance of Toronto, not from the north or Sudbury or that far away, if I am not mistaken.

Mr Sutherland: I believe I am the farthest.

The Chair: What I have heard is the first Monday to meet from 1 to 4, then to have meetings from 10 to noon and 1 to 4, leave Fridays in as it stands now, but use them only if needed. Is that what I am hearing? Do I have a consensus on that?

Mr Sutherland: I might have missed it, but when is the deadline that we are making this report?

Ms Anderson: It is the last day of the hearings.

The Chair: Somewhere around 11 February.

Ms Anderson: The last day the committee can meet. The report has to be approved at that point if it is going to be approved by the whole committee.

The Chair: We have to go through it. The recommendations in that report we have to go through clause by clause, and either we get the unanimous consent of the committee or we get a majority view of the committee. The majority view of the committee will be written up and then, if there are dissenting views or alternative views, they will be written, as I understand it, by the people who are dissenting. They can be included at the end of the report as dissenting views.

Mr Sutherland: I guess the deadline I want to know is when this has to go into Treasury so it can be taken into consideration.

The Chair: The middle of February. Once we have made all our resolutions and they come together in a report, that report can go back to be rewritten and then it goes to Treasury.

Mr Sutherland: The middle of February being 15 February, that Friday?

The Chair: It is included.

Mr Christopherson: So what is the first day of our hearings?

The Chair: January 21. Any questions?

Mr Christopherson: If there is nothing further on that, the Hansard. I have asked some of my colleagues. None of us has the Hansard from the last meeting.

The Chair: It has not been printed yet.

Mr Christopherson: What is the normal procedure once we get into full swing?

Clerk of the Committee: I cannot really speak for Hansard, but as far as I know the normal time between a committee meeting and the time the final printed Hansard would be available would be about a week. When the House is meeting it takes precedence and Hansard generates the Hansard document for the House on a first-priority basis. When the House is not meeting, the committees will probably get a little quicker.

Mr Christopherson: That is fine. I can appreciate that the House has to take precedence. It is just something I would like to hang on to. They are mailed out, I would assume, to all members automatically. While I am on the point, what about Hansards for other committees? Do you have to request them or are they available? How does that work?

Mr Kwinter: What happens is that you get bound copies eventually of all of the committees. They do not distribute them, I do not think, to every member unless you request them. Eventually, though, you will get bound copies of every committee.

Mr Christopherson: But during those times when the odd individual gives a less than dynamic speech and you want to do some reading, you can get the current Hansards from the other committees? Thank you.

The Chair: As we have all agreed on that, is there any other business? I took the liberty of extrapolating from yesterday's meeting with the other chairmen of the committees to ask Mr Decker to bring forward committee expense reports. I would like a motion to go in camera with this. It is really a lesson on how to fill it out.

Mr Christopherson: Why would we go in camera?

The Chair: Trust me on this one, okay? I guess we will adjourn this part of the meeting and then just move to the next part.

The committee continued in camera at 1128.

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THE EFFECT OF VITAMIN C ON THE BLOOD SUGAR AND CHOLESTEROL

W. H. WELLS, JR., M.D., and
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Clinical Investigation
The effect of vitamin C on the blood sugar and cholesterol
of the normal individual
The effect of vitamin C on the blood sugar and cholesterol
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Editorial

Editorial Comment on the article by Wells, Jr., and Wells, Jr.
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